ST. LAWRENCE SEAWAY DEVELOPMENT CORPORATION

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 422

A BILL TO PROVIDE FOR THE EXTENSION OF THE PERIOD FOR REPAYMENT OF REVENUE BONDS ISSUED BY THE SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION TO THE SECRETARY OF THE TREASURY FROM FIFTY YEARS TO EIGHTY YEARS, AND FOR OTHER PURPOSES

MARCH 17, 1982

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ST. LAWRENCE SEAWAY DEVELOPMENT CORPORATION

WEDNESDAY, MARCH 17, 1982

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 4221, of the Dirksen Senate Office Building, Hon. Charles H. Percy (chairman of the committee) presiding.

Present: Senators Percy and Glenn.

The CHAIRMAN. We welcome you this morning.

Senator Glenn, I am hoping that if we do not finish this hearing by 11:30, that you can take the chair for me. Senator Baker has called a Republican leadership meeting at that time and I have to get over there.

Will that be all right with you?

Senator GLENN. I will try, but I have to check my schedule.

The CHAIRMAN. Thank you.

Nearly 6 months ago in Chicago, Ill., I sponsored a Great Lakes maritime conference which was attended by Federal officials, labor, port interests, seaway users, and steamship operators. The conference addressed public policy and administrative decisions of Federal agencies that may have contributed to the decline of the Great Lakes maritime industry.

Conferees recommended several actions to stem the decline. Excepting the Federal officials, the conference witnesses were unanimous in recommending the forgiveness of the St. Lawrence Seaway debt.

Today we will explore this matter further and hear testimony on Senator Glenn's bill to extend the repayment period of the seaway construction debt.

The St. Lawrence Seaway was completed in 1959 at a cost of about $475 million, of which Canada paid $336.5 million, the United States about $138.8 million. The seaway receives no Federal appropriation, and retirement of the construction debt as well as operation and maintenance costs are covered by tolls.

The seaway is the only U.S. waterway to charge substantial tolls, which are determined through negotiations with the Canadians and formalized through an exchange of diplomatic notes.

The Congress eliminated interest charges on the seaway construction debt in 1970 when $38 million had been repaid in interest. Presently about $25 million has been repaid toward the debt principal, leaving approximately $110 million outstanding.

The seaway collects about $10 million in tolls per year, with annual debt repayment costs running about $2 million, and remaining funds covering operation and maintenance of the seaway. Under the debt repayment schedule, however, annual debt payments would increase to $9.5 million in 1986 and seaway tolls would have to increase substantially.

Without some adjustment in the annual debt repayment schedule, tolls, which already have increased 117 percent since 1978, will be raised even higher simply to meet debt payments.

Senator Glenn's bill, S. 422, would extend the repayment period for the remaining indebtedness by an additional 30 years and provide for equal annual installments. Other proposals would convert the debt to equity as the Canadians did in 1977 or eliminate the debt entirely.

The ports of the Great Lakes have declined substantially over the last decade, and for this reason Senator Glenn's bill and the other Seaway refinancing proposals as well as the administration's proposals to recover federally incurred debts for the operation of U.S. waterways are of vital importance to the maritime industry of the Great Lakes.

A decade ago, for example, 683 ocean-going ships called on the Port of Chicago, while only 153 ships were received at the port in 1980. More than 5 million tons of cargo passed through Chicago in 1971, compared to 1.3 million tons 10 years later.

Illinois is the transportation hub of the country. We have the busiest segment of the interstate highway system, the Nation's first and second most active rail hubs, and the busiest airport in the world. Illinois is also the leading exporter of agricultural and manufactured products, which is not coincidental. As these products set off for foreign destinations, they rely on this important transportation infrastructure. In line with this, the transportation costs of our midwestern exports, just like costs of raw materials, labor or production, determine whether our products ultimately will be competitive abroad.

One-third of the industrial output of the United States is manufactured in the Midwest. Whether it is Minnesota iron ore or Michigan auto parts of Indiana steel or Wisconsin butter, it would seem that these goods should be exported through Duluth, Detroit, Gary or Milwaukee.

I would contend that grain grown near Decatur or machinery manufactured in Peoria should pass through Chicago rather than the ports of Baltimore and New Orleans. This will benefit our ports as well as our farms and factories.

Senator Glenn, as the author of this legislation that we are considering today, we would be happy to have an opening statement from you.

[Text of S. 422 follows:]

97TH CONGRESS
1ST SESSION

S. 422

To provide for the extension of the period for repayment of revenue bonds issued by the Saint Lawrence Seaway Development Corporation to the Secretary of the Treasury from fifty years to eighty years, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 5 (legislative day, JANUARY 5), 1981

Mr. GLENN introduced the following bill; which was read twice and referred to the Committee on Foreign Relations

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A BILL

To provide for the extension of the period for repayment of revenue bonds issued by the Saint Lawrence Seaway Development Corporation to the Secretary of the Treasury from fifty years to eighty years, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5 of the Act of May 13, 1954 (68 Stat. 94; 33 U.S.C. 985), providing for the creation of the Saint Lawrence Seaway Development Corporation, is amended by striking out "not in excess of fifty years" and inserting in lieu thereof "not in excess of eighty years".

SEC. 2. Section 12(b)(5) of the Act of May 13, 1954 (68 Stat. 97; 33 U.S.C. 988(b)(5)), is amended by striking out "fifty years" and inserting in lieu thereof "eighty years".

SEC. 3. The Corporation and the Secretary of the Treasury are authorized and directed to modify terms of any and all obligations of the Corporation incurred under section 5 of the Act of May 13, 1954, which are outstanding on the effective date of this Act so that such outstanding obligations shall be payable in equal annual amounts over the remainder of the eighty-year period provided for in section 1 of this Act.

Senator GLENN. Thank you very much, Mr. Chairman.

I want to express my appreciation for this opportunity to air the issue involved in S. 422, a bill which I introduced last February and which I called at that time one small step toward the improvement of shipping between the heart of America and the rest of the world.

We are in a part of America that is very much impacted at the moment, in particular by very changing manufacturing and trade patterns. It usually comes as a shock to most people to find out that Ohio has more people employed to make products for international commerce, more people dependent on that international commerce, than any State in the Union, even New York or California. And that is not just a percent of work force but the actual number of jobs.

The estimate is that one out of every six industrial jobs in Ohio makes products that get shipped abroad. So we are very much dependent on this foreign trade, as are all the rest of the States in the Great Lake region. Illinois, the State of our chairman, also is very much involved in that international trade.

The purpose of S. 422 is to moderate and stabilize the debilitating increases in tolls assessed against users in order to operate the United States-Canadian St. Lawrence Seaway. The bill would accomplish this by stretching out the repayment period for the Seaway Development Corporation's debt by 30 years and by providing for a straight line repayment schedule.

Thus, the remaining bonded indebtedness that the chairman mentioned for the U.S. portion of the Seaway would be retired in equal annual installments of $2 million through the year 2043. We would avoid the disastrous jump to $9.5 million which will occur in 1986 under the present repayment schedule.

S. 422, however, was drafted well over a year ago to address the status quo. Indeed, it was drafted before former Treasury Secretary Miller agreed to the present formula, thus retaining the $2 million payment through 1985 and giving us time to make a longer run decision.

Since then, as I am sure everyone in this room realizes, events have altered the circumstances. The Senate has on its calendar S. 1692, a bill calling for port-specific user fees and considerable debate is continuing on other approaches to the problem of port development financing.

Quite a number of Senators, the chairman and me included, have been deeply engaged with the purpose of seeing that the Great Lakes St. Lawrence Seaway system does not suffer anticompetitive effects as this legislation, whatever the eventual outcome, is developed. So the ante, so to speak, has been upped.

Other proposals dealing with the Seaway Corporation's debt have been proposed or will be soon. They go further than S. 422, looking toward the cancellation of the remaining portion of the debt or its coversion to Government equity, with the return to the Treasury tied to any revenues remaining after normal business costs, including operations and maintenance and depreciation are met. Senator Dixon introduced the latter measure yesterday and Senator Durenberger has proposed the former.

The debate, in fact, has gone beyond the question of dealing with the debt to the question of the entire toll structure, at least within the

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context of general user fee legislation relating to port development and operation and maintenance.

To date, however, no committee of the Senate has addressed the unique situation of the Great Lakes-St. Lawrence Seaway system, which is the fact that for nearly a quarter century, users of this system have borne the burden of user fees to maintain and operate the Seaway and to retire its construction debt.

This committee lacks the jurisdiction to resolve the port financing issue, but, Mr. Chairman, I think it propitious that this committee has S. 422 before it so that these very timely hearings can focus attention on the concerns of the Great Lakes region with regard to this legislation.

Again, I thank you for scheduling the hearing at this time and welcome the members of the Great Lakes task force here today. I am sure this hearing will result in constructive contributions to the present debate.

Thank you very much.

The CHAIRMAN. Thank you very much, Senator Glenn.

Our first witness is David W. Oberlin, Administrator, St. Lawrence Seaway Development Corporation.

Mr. Oberlin, we welcome you. Please introduce your colleagues.

STATEMENT OF D. W. OBERLIN, ADMINISTRATOR, ACCOMPANIED BY ROBERT KRAFT, DIRECTOR, PLANS AND POLICY DEVELOPMENT AND ROBERT LEWIS, DIRECTOR, SEAWAY SYSTEMS ANALYSIS, ST. LAWRENCE SEAWAY DEVELOPMENT CORPORATION, U.S. DEPARTMENT OF TRANSPORTATION

Mr. OBERLIN. I would like to introduce Mr. Robert Kraft and Mr. Bob Lewis from our staff, who will assist me in any questions that you might have.

Mr. Chairman, it is a pleasure to be here and it is particularly fitting that the Foreign Relations Committee discuss Seaway problems because of the international nature of the Seaway. The Seaway system is a 2,300-mile binational waterway which permits ocean vessels to travel from the Atlantic Ocean as far inland as Lake Superior and Lake Michigan. By the time it reaches Lake Superior, it has raised 600 feet through a series of locks in the United States and Canada.

The St. Lawrence Seaway Development Corporation in the Department of Transportation is charged with the operation, maintenance, development and administration of the Seaway facilities, including two locks in the United States between Montreal and Lake Ontario.

A counterpart agency, the St. Lawrence Seaway Authority of Canada, has similar responsibilities for the five locks between Montreal and Lake Ontario in that country as well as for the entire eight locks of the Welland Canal between Lake Erie and Lake Ontario. Additional parallel locks on the St. Mary's River between Lake Huron and Lake Superior are operated by the U.S. Army Corps of Engineers.

Both the Seaway Corporation and the Canadian Authority are authorized or directed by the respective enabling statutes to recover, by means of tolls levied on the vessels and cargoes which transit

through the Seaway, their entire costs of operation. The Corporation is charged by statute to repay the costs of the original construction of the U.S. portion of the Seaway, which was financed by revenue bonds issued by the Secretary of the Treasury.

The Canadian Government also expects its Seaway Authority to pay funds into that country's treasury as a return on the direct investment made by Canada or Canadian Seaway improvements. The statute under which we operate provides that we are to negotiate directly with the Canadian Seaway Authority on agreements which establish the rules for measuring vessels and cargoes, the rates of tolls themselves, and the division of toll revenues between the two seaway agencies.

The present law is very specific in setting down the principles which we are to follow in toll negotiations with Canada. After establishing that our rates are to be set so as to encourage the use of the system and reflect the value of the service which we provide to the movement of a cargo, the statute goes on to establish the principle that our negotiated rates are to be calculated to cover as nearly as possible all costs of operating and maintaining the works under our administration, and in addition that they should provide revenues sufficient to amortize the principle of our debts and obligations over a period of not more than 50 years.

The original tolls were established by the seaway entities in 1958 on the basis of a recommendation of joint United States-Canadian toll committee. The committee projected constant operating and maintenance costs over the 50-year life of the project.

Obviously, there was no expectation of the level of inflation which would occur in subsequent years, nor was there any reflection of the increased costs of maintaining aging facilities. Nonetheless, because of increasing traffic and other circumstances, it was possible to keep tolls constant for 19 years until 1978. Toll increases would have been necessary earlier, but in 1970 legislation was enacted relieving the corporation of the requirement to pay interest on its outstanding debt.

Since that time, all of our payments to the Treasury have been for redemption of bonds. The 1978 toll increases were phased in over a period of 3 years, but costs continued to rise in both Canada and the United States, so that in 1981 toll negotiations with the Canadians began again, with the result that seaway tolls are being increased by an average of about 18 percent when the 1982 shipping season opens in a couple of weeks. The tolls will then increase again by 10 percent in 1983.

An added cost for the United States has been the continued deterioration of our Eisenhower Lock. This has been in addition to normal maintenance and operating costs and has taken an increasing portion of the Corporation's annual income. Rehabilitation maintenance now consumes 10 to 12 percent of our national income.

In 1977, Canada determined that it would treat its seaway investment as an equity holding of the Government. As a result, rather than require a set repayment of capital costs, that country now seeks a return on its seaway investment at a rate set from time to time by the Minister of Transport.

The Corporation's objective in toll negotiations is to generate sufficient revenues to meet a fixed payback requirement. The requirement

schedule is according to the Seaway Act to be agreed upon by the Corporation and the Secretary of the Treasury. This has resulted in a U.S. repayment requirement which is considerably different in terms of percentage of investment than the return being sought by Canada.

We have to date been able to reach agreement with the Treasury on a revised payback schedule prior to the beginning of tolls talks. These rescheduling efforts have resulted in lowering our short-term requirements while preserving the present value of total indebtedness by ballooning the payback in the earliest out years. As you stated earlier, the present repayment schedule of our annual debt service requirement of $2 million through 1985 leaps to $9.5 million in 1986.

The alternatives to a significant toll increase include a variety of administrative restructuring methods for the payback schedule or alternatives, which will be studied before the next toll negotiations. The administration believes it would be premature to take a position on the alternatives which are available so far in advance of the $9.5 million bond retirement balloon in 1986.

The various possibilities are being reviewed. I am hopeful that those issues as well as the Seaway debt issue can be resolved well in advance of the 1986 navigation season.

Mr. Chairman, I would be pleased to answer any questions which you or the other members of the committee might have.

The CHAIRMAN. I wonder if you would comment on the statement that you made that a joint United States-Canadian toll committee projected constant operating and maintenance costs over the 50-year life of the project. What kind of commission is it that would not know that anything that is constructed costs more at the end of its life than it does at the beginning just to maintain it?

Even in those days when we had 2-percent inflation, which is not much by present standards but compounded over 50 years it is quite a bit, how could they possibly have made such estimates in a vacuum, or were they just simply projecting that toll increase would be sufficient to more than offset it?

Mr. OBERLIN. I believe the reverse may have been true, although I would have to go back and review the record, but I believe what they were projecting was a constant toll, and therefore that in and of itself would project constant operating and maintenance costs.

This is a committee of economists and other representatives of both the United States and Canada who made the recommendation to the two Seaway entities at that time as to the original level of tolls.

The CHAIRMAN. Last year you completed negotiations with your agency's counterpart, the St. Lawrence Seaway Authority of Canada, which called for an increase in tolls. How would future negotiations be affected were the Congress to enact S. 422?

Mr. OBERLIN. If you look at the negotiations from the standpoint of the Canadians and you are sitting down at the table, you would expect to get a return on investment just the same as the man on the opposite side of the table. Therefore, as long as the percent return being required by the United States is higher than the percent return by the Canadians, we can expect that they will move toward a larger percentage return on investment, which in turn would inflate the tolls.

The CHAIRMAN. Do you foresee any potential danger, Mr. Oberlin, or difficulty, considering the international nature of the Seaway, if the United States unilaterally were to restructure the Corporation's debt?

Mr. OBERLIN. No, sir, because Canada already has done that to their debt, as I indicated.

The CHAIRMAN. They moved from debt to equity on their own without any objection?

Mr. OBERLIN. Yes, Mr. Chairman, that is correct.

The CHAIRMAN. Thank you very much.

Senator Glenn.

Senator GLENN. Thank you very much, Mr. Chairman.

Mr. Oberlin, back in 1981 you wrote an article which appeared in the Seaway Review. In 1981 you said:

> We will have to pay back $2 million instead of the $3 million, and from 1982 through 1985, $2 million instead of the $5 million each year. This is only interim relief since in 1986 our annual payments as now scheduled will skyrocket to over $9 million.
>
> Between now and then we hope for some type of long-term solution.

I agree with you completely. That type of long-term solution is what we are trying to address today. I presume you still want that long-term solution and would like it as soon as possible.

Today's testimony, however, seems to want to put it off a little longer than you did at that time. Is this a change in attitude that you have had? What has happened?

Mr. OBERLIN. My attitude has not changed. I just believe as a part of any long-term solution that you really have to look at the various options. The administration has indicated that it wants to look at various administrative options.

Senator GLENN. One of the big problems is the ballooning debt service that we will have in 1986; right?

Mr. OBERLIN. That is correct.

Senator GLENN. I think that is one you addressed when you wanted a longer term solution.

I believe you sought from former Secretary of the Treasury Miller, the most previous recent administrator, a restructuring of the debt payment schedule; is that right?

Mr. OBERLIN. Yes, sir. Without a restructure, we would have had to go for a much larger toll increase. By restructuring the debt and reducing the annual payment to $2 million as the interim payment, that put us into a better position to negotiate with Canada on a more equitable basis.

Senator GLENN. Does the administration support S. 422?

Mr. OBERLIN. At this time I am not authorized to indicate that the administration either supports or rejects it. It simply wants to study the alternatives.

Senator GLENN. Well, with your previous expressions of wanting to get this thing resolved as fast as possible so that we would have outlined our long-term program, are you being constrained by the administration as far as your own personal views go? Has OMB put the lid on this, or what?

Mr. OBERLIN. My own personal views have not changed over the years, Mr. Chairman. I am only authorized to say that the administration believes it would be premature to take a position on any of the alternatives.

Senator GLENN. Do you think you were wrong in your former view of this as expressed in Seaway Review and other statements?

Mr. OBERLIN. No, sir.

Senator GLENN. Very well. I appreciate the position in which you find yourself with this administration. If you do not change your views from those held previously, I therefore must assume that you are being constrained by OMB or somebody from going ahead and supporting this, because I know you wanted a long-term solution. We have had contact on that subject before.

Can you tell us what proposals the administration is considering in order to deal with this if they are not willing to support S. 422?

Mr. OBERLIN. Basically, as I view it, there are four options that could be done administratively as opposed to legislative options. One, of course, would be to reschedule the debt again. That would result in pushing the balloon back further. The second one would be to raise tolls, which would require about a 72-percent increase in the 1983 toll level if Canada required a similar return on investment.

Senator GLENN. That would be on top of increases we already have had during the past several years. What has it been, 170 percent that we have had in the last number of years? How many years is it?

Mr. OBERLIN. Yes, it is about 5 years. We would have had about 128 percent.

Senator GLENN. Up to now?

Mr. OBERLIN. Yes.

Senator GLENN. What would be the increase on top of that?

Mr. OBERLIN. About 70-some percent. It depends on what Canada would demand as a similar return on its investment.

Senator GLENN. So one of the options that would be considered from the time we started this would be that there would be about a 200-percent toll rise. What else is there?

Mr. OBERLIN. Well, let's see. There was administrative rescheduling, raising the tolls, there is defaulting on the bonds.

Senator GLENN. That is a nice option. [General laughter.]

What else is there?

Mr. OBERLIN. The only other option I can think of at this time would be perhaps through some appropriations process to cover some of the problems.

Senator GLENN. Now, are those ones that the administration is actively considering?

Mr. OBERLIN. Yes, those are the options which are being considered.

Senator GLENN. Are these options that you generated or are they being generated by OMB and being sent to you?

Mr. OBERLIN. As administrator of the Seaway Corporation it is my responsibility to solve the problems that face the Seaway in the best way and with the best tools available to me and to the Corporation. These are the options which we are considering.

Senator GLENN. OK, but are you generating these and proposing any of these to the administration or are these being sent to you as options for you to consider?

Mr. OBERLIN. We have at present under consideration as one of our objectives this year to examine the various alternatives and make a recommendation to the Secretary of Transportation as to our preferred course of action.

Senator GLENN. Under your rescheduling, that is basically what I am talking about doing here with S. 422.

Mr. OBERLIN. Yes, sir. But under the present legislation, the administration could not reschedule unless the Treasury changed its position on the present value concept to which it has adhered. That is a possibility. But to date, Treasury has held to the present value concept.

As long as that concept is adopted, then you will have a balloon somewhere down the line. If they no longer adhere to that concept, then the possibility of even payments would be a reality, although it would be higher under that within the constraints of the present 50-year period than under the legislation that you are proposing, sir.

Senator GLENN. You mentioned the possibility of an appropriation as one of the options. Do you mean we would take an equity position and erase the debt, as Canada has done?

Mr. OBERLIN. No. By that I meant this. For example, when we take on an unusual expenditure which draws off the Seaway income, those expenses would have to be met through appropriations. I doubt that in the present user charge climate that that is a viable option.

Senator GLENN. User fees would come under your second option of raising tolls, I presume; is that right?

Mr. OBERLIN. Yes, sir.

Senator GLENN. Can you tell me when the administration plans to have a program ready to propose?

Mr. OBERLIN. By the end of this year.

Senator GLENN. By the end of this year?

Mr. OBERLIN. Yes, sir.

Senator GLENN. What payments does the Canadian counterpart make to its treasury?

Mr. OBERLIN. The payments are not set. Their goal is to have a 1-percent return on their investment. Actually, they will not have that percentage return. They are going to fall about $15 million short over the 3-year period. I would have to calculate the percentage, but we are talking of a $15 million shortfall with a revenue of about $165 million. They are probably falling about 3 percent short on the return. There won't be a return on their investment.

Mr. KRAFT. Their objective is a 1-percent return on their $625 million capitalization.

Mr. OBERLIN. But they will fall short of that. They will have a deficit from that point of view. They are accepting the fact that they will not receive any percent return on their investment under the new toll procedure.

Senator GLENN. Can you tell us, if we went to user fees as a basis, what percentage the increase in tolls would be?

Mr. LEWIS. It would be in excess of 70 percent, sir, over the current level of tolls for 1983. For instance, the average cost per ton moving through the Montreal-Lake Ontario section is going to be about 86 cents.

Senator GLENN. Is that the current fee?

Mr. LEWIS. Yes, sir. For 1983, once the current increase is in place. So you would be putting about 70 percent or better on top of that, depending upon traffic levels at that time in the future. That is just an average. It will, of course, vary by commodity.

Senator GLENN. That would run a ton up to about $1.37.

Mr. LEWIS. Yes, at minimum. Of course, there will be a variance on commodities and their particular toll schedules.

Senator GLENN. Can you give us an idea of what that compares to, say, for rail shipment out of that area? If we have to go that high, is that going to scare a lot of people over into other means of transportation out of the Great Lakes area?

Mr. LEWIS. I would expect that if we had to put in such a toll increase, sir, we could very easily lose 5 to 6 million tons of traffic off the system. That is just a top-of-the-head estimate.

Senator GLENN. What percent is that?

Mr. LEWIS. That would be better than 10 percent of current levels of tonnage. The majority of that definitely will be in grain, particularly from the lower lakes region, such as Toledo and Chicago, those areas where competition is the worst.

Senator GLENN. So you would lose on the overall volume and you still have to pay off the debt.

Mr. LEWIS. In effect, it forces you to make the increase greater than what initially was required. If it is 70 percent and you pull cargo out, then you are probably more in a 75 to 80 percent.

Senator GLENN. It ups the cost of products we are trying to ship abroad from Illinois, Ohio, and Indiana and all of the States of the Great Lakes.

Mr. LEWIS. That is correct.

Senator GLENN. Thank you, Mr. Chairman.

The CHAIRMAN. Gentlemen, thank you very much, indeed, or your appearance here today.

Mr. OBERLIN. Thank you, Mr. Chairman.

[The following letters are referred to on page 16:]

U.S. SENATE,
Washington, D.C., February 10, 1982.

Adm. HAROLD E. SHEAR,
Administrator, Maritime Administration, Department of Transportation, Washington, D.C.

DEAR ADMIRAL SHEAR: We write to impress upon you our concern about the continued lack of shipping activity on our nation's "fourth seacoast"—the Great Lakes. The continual decline in the number of vessels serving our ports, in tonnage moved and in employment figures is making an alarming contribution to the generally depressed state of our region's economy.

Our most recent attempt to directly address this issue was a letter, also signed by twelve Great Lakes Senators, calling for a strict allocation of 10 percent of all federally-sponsored cargo to the Great Lakes. This did not seem to be an unreasonable request in light of the statistics relative to current allocations.

Though the statistics are, perhaps, too often repeated, they clearly state our case. For instance, 40 percent of our defense-related cargo is produced in the Great Lakes region, yet only 1 percent moves through the Lakes' ports. Of the 9,000 longshoremen who were once fully employed at Lakes' ports, 4,000 are now unemployed and 3,000 are underemployed. These figures must be viewed within the context of our steel/auto industrial base in the Midwest.

In the opinion denying the "fourth seacoast" a 10 percent allocation of U.S. Government cargo, the Maritime Administration made two very important points. The first confirmed the Maritime Administration's "legal authority to form the basis for promulgation of a final rule for the geographical allocation of preference cargo." The second point is a commitment on the part of the Maritime Administration to "actively initiate discussions with the cognizant Federal agencies in an effort to encourage and equitable distribution of preference cargos within the existing rules and guidelines."

We, as Senators from the Great Lakes States, have been working together throughout this legislative session in an effort to make certain that the Great Lakes are taken into consideration in all pending maritime legislation. Obviously, the Lakes suffer a tremendous disadvantage in competition with the other three seacoasts. The two most prevalent problems are, of course, accessibility and climate. Your agency has determined that it has the authority to address our concerns and has made a commitment to all of us to do so. We intend to pursue our objective of improving the cargo base in the Great Lakes.

We have been encouraged to permit the issue of increased cargo movement through the Great Lakes to be pursued administratively by your agency. We would appreciate knowing of any progress that you have made in this regard.

Thanking you in advance for your attention to this and we will look forward to hearing from you in the very near future.

Sincerely,

Dan Quayle, Alan J. Dixon, Rudy Boschwitz, Bob Kasten, Donald W. Riegle, John Glenn, Richard G. Lugar, Charles H. Percy, Dave Durenberger, William Proxmire, Carl Levin, Howard M. Metzenbaum.

U.S. DEPARTMENT OF TRANSPORTATION,
MARITIME ADMINISTRATION,
Washington, D.C., March 16, 1982.

Hon. DAN QUAYLE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR QUAYLE: I want to thank you for your letter of February 10, 1982, wherein you and eleven other Great Lakes Senators expressed your concern that the continued lack of shipping activity in the Great Lakes is making an alarming contribution to the generally depressed state of your region's economy.

We at the Maritime Administration (MarAd) share your concern about this situation. We have already taken positive steps which, as you know, had a favorable impact on increasing cargo movements to this region during the 1981 shipping season, we have embarked on a total marketing program in an effort to stimulate more activity and a consistent flow of cargoes for this region.

Our marketing program, the first phase of which we began on December 14, 1981, with a Cargo Preference and Market Development Seminar in Chicago, involves all facets and resources that have a bearing on expanded opportunities for the Great Lakes. The December 14th seminar brought together shippers, carriers, freight forwarders, and port representatives for presentations by officials of the major Government agencies on the opportunities and procedures related to their export and import programs. MarAd provided information as to where to contact the numerous Government shipper agencies to keep abreast of developing cargo possibilities. With regard to commercial cargo, MarAd outlined its own program for marketing cooperation with the port organizations. In this program, we have increased our activities both with Federal shippers and with commercial shippers within the scope of the region, in conjunction with the port organizations, to encourage and assist in utilization of the region's resources.

We are expanding our analysis of the various programs encompassed by the cargo preference laws to identify specific cargo shipments which could be routed through the region and to alert the responsible organizations. We are continuing our personal interviews with the Federal agencies and their shippers through my staff located here in Washington. Our Great Lakes region office in Cleveland is working with the commercial manufacturers, port personnel, and steamship representatives to examine and determine the ways in which we can be of optimal assistance.

Our Research and Development office is reviewing various projects which may provide support and opportunities for the Great Lakes maritime industries in their efforts to increase activities there.

In the next month, I personally will be visiting with the highest officials in the Departments of Agriculture, Defense, and State (AID) to discuss their programs and the measures they are taking to increase their cargoes for the region. I will once again ask for a renewed commitment by each of the agencies for supporting the Great Lakes to the fullest extent possible.

As further tangible evidence of MarAd's concern for the serious Great Lakes' problems, I have created a new position with specific responsibility for that

area. It is noteworthy that this new Deputy Administrator, Howard A. Watters, possesses a Midwest industry background and hence a familiarity with the Great Lakes situation.

While we do not expect to cure all of the problems hampering the Great Lakes maritime industry, we are definitely encouraged about the long term prospects of our marketing program for the region. You have my assurance that I will personally be involved in this program, periodically reviewing its progress and making appropriate adjustments, if necessary, in focus and resources to insure that we are effective.

Sincerely,

H. E. SHEAR,
Maritime Administrator.

The CHAIRMAN. Our remaining witnesses will be taken in one panel. They are Melvin H. Pelfrey, chairman, Great Lakes Task Force, Toledo, Ohio; Frank Kudrna, chairman, Great Lakes Commission, and director, Illinois Divsion of Water Resources, Chicago; Gene Schneider, director of development, Toledo/Lucas County Port Authority, Toledo, Ohio, who is appearing on behalf of Gary L. Failor, chairman, U.S. Section, International Association of Great Lakes Ports, Toledo, Ohio; Davis Helberg, director, Seaway Port Authority of Duluth; David G. Abraham, Indiana Port Commission at the Port of Indiana/Burns Waterway Harbor, Portage, Ind.; Patrick J. Sullivan, legislative director, International Longshoremen's Association, Washington, D.C.; and I understand Richard E. Briggs, executive vice president, Association of American Railroads, may not be here yet but he will be here by 11 o'clock and he will join the panel when he comes in.

Mr. Sullivan, I understand that you have an early departure, so why don't you proceed first.

Mr. Sullivan is testifying on behalf of the International Longshoremen's Association.

STATEMENT OF PATRICK J. SULLIVAN, LEGISLATIVE DIRECTOR, INTERNATIONAL LONGSHOREMEN'S ASSOCIATION

Mr. SULLIVAN. Senator, thank you very much for your courtesy in permitting me to address this panel first.

Mr. Chairman, members of the committee, my name is Patrick Sullivan. I am director of the legislative and government affairs office of the International Longshoremen's Association, AFL–CIO. I am also the secretary-treasurer of its Great Lakes district.

The ILA represents over 100,000 members in 34 States. I come before you as someone who has lived and worked in the Great Lakes for almost 40 years. I have seen the decline in traffic in the lakes, but I do have hope for its future.

The Great Lakes, which is by statute the Nation's fourth seacoast, is a great heartland of our country, with transportation sites adjacent to immense harvests and great historically established industries, providing for domestic and foreign, civilian as well as military uses and exports and a whole range of other products.

However, even with these riches, businesses at ports such as Cleveland, Chicago, Duluth, and Buffalo has fallen off dramatically. The U.S. Great Lakes fleet shrunk another 14 vessels last year, and today only 145 such ships ply the Great Lakes. This is the domestic U.S. fleet.

At these ports, once 9,000 longshoremen were fully employed, but today 3,000 are underemployed and 4,000 are totally unemployed. We must look at the new ideas and approaches that have been proposed by this administration and the Congress.

The unemployed longshoremen about whom I speak, instead of being an asset to the area as they once were, today are being driven into becoming a liability. Many of these men have over 20 years in the industry. They have amassed skills which one day will be needed but are now being lost. Added to the ironies which have befallen this region is the fact that a substantial number of our membership comes from the minority community.

Longshoring can attract and gives employment to persons who have not had considerable formal training. Thus the need for improved waterways and port dredging is vital to help us stem the rising problem of unemployment in our Nation and in this region.

As is becoming more and more apparent, user fees have gone beyond the proposal stage to the point where they will become inevitable. Reluctantly, the ILA has announced its qualified support. As president Thomas Gleason testified before the House Committee on Merchant Marine in September 1981:

> If user fees are inevitable, then at a minimum they should be fairly and uniformly distributed among the ports. The Federal Government should make it possible for the already financially strapped States and their port authorities to carry this additional burden with the least amount of uneven impact on the local economies.

Furthermore, should user fees be applied on a port-by-port basis, this would disrupt and distort the present flow of cargo. The ILA is asking that, should user fees be applied, the Great Lakes ports not be treated in a manner that would further cripple them and put them at a competitive disadvantage with the other ports.

Unlike ports on the other three seacoasts, in order for a ship to use a Great Lakes port, it must first come via an inland waterway such as the St. Lawrence Seaway. With the advent of user fees, there is a definite probability of a double tax on ships that wish to call on the Great Lakes ports.

The St. Lawrence Seaway poses another problem in that, aside from the proposed user fees, present users of the Seaway are subject to a fee which is collected to pay back construction costs. Should the administration's proposals for user fees be adopted, this would further discourage ships from using Great Lakes ports and cause even further unemployment.

Senator Glenn's bill, S. 422, which would extend the time for repayment of the St. Lawrence Seaway debt from 50 years to 80 years, is a step in the right direction toward encouraging more traffic in the Great Lakes.

I wish to congratulate you, Senator, for your thoughtfulness in looking at this problem. However, the ILA feels that the ultimate solution to this problem lies in legislation that would convert the debt of the St. Lawrence Seaway into equity.

The St. Lawrence Seaway is both a national and international resource. On the national level, the Seaway is used not only by those States which border it but by the farmers and manufacturers hundreds of miles away. On the international level, both the United States and

Canada as partners in this venture would benefit by increased use of the waterway.

Another problem facing Great Lakes ports is that of foreign cargo diversion. For this reason we support legislation that would close a loophole in the 1916 Shipping Act by requiring all carriers who take U.S. cargo through foreign ports to file their rates with the Federal Maritime Commission.

We support this bill as a matter of equity. The ILA realizes its responsibilities as citizens from the Great Lakes area. Unlike the automobile manufacturers of that region, we agree with Congressman Biaggi's statement delivered before our convention recently in Florida. To quote him, "These same automobile manufacturers want you to buy American cars but they want you to ship foreign." Our membership cannot stand by and watch this business leave our ports.

The ILA is also committed to having U.S.-flag ships serve Great Lakes ports. The Office of Management and Budget's recent decision not to grant operating subsidies to new operators will further curtail service on the Great Lakes. While the ILA shares everyone's concern for the Federal deficit, we equally see the need for subsidies to stimulate employment of American workers and to revitalize our ports.

Currently less than 3 percent of U.S. Department of Agriculture and AID cargoes and less than 1 percent of military cargo moves through the Great Lakes. However, the Cargo Preference Act of 1954 seemingly should result in 10 percent of federally generated or supervised cargo moving through the Great Lakes.

What we, and I believe you, would like to see are government agencies acting responsibly and voluntarily within existing rules and guidelines to see that an equitable portion of preference cargoes passes through Great Lakes ports. This is a far more favorable alternative than having statutorily to allocate specific preference cargoes which, on a practical basis, might not make economic sense.

We would like to believe that you are in positions to use your authority's influence and your well-known powers of persuasion to effect such internal administrative changes as will benefit those living and working on the lakes.

The ILA is confident that with the aid of the Congress and the administration, the Great Lakes will be restored to the role it should hold as one of the great transportation centers of our country.

Thank you.

The CHAIRMAN. Thank you very much.

Before we have our next panelist, I would like to insert into the record following our previous witness' testimony, a letter that Senator Glenn and I joined in signing, initiated by Senator Quayle and other Great Lakes Senators, to Admiral Shear, and a reply that has just been received a few moments ago signed by Admiral Shear.[1]

I will insert the letters in full, but I think all of you would like to know, particularly you, Mr. Sullivan, because in your opening statement you said you have hopes for the future, despite some of the discouraging trends. Admiral Shear says in part:

We have already taken positive steps which, as you know, had a favorable impact on the increase in cargo movements to this region during the 1981 shipping

[1] See page 12.

season. Based on these successes, for the 1982 Great Lakes shipping season we have embarked on a total marketing program in an effort to stimulate more activity and a consistent flow of cargoes for this region.

They did announce at the conference I held in Chicago that they would have another conference on December 14, emphasizing their marketing programing with a cargo preference and market development seminar. That seminar was held and was very successful.

Admiral Shear says in closing:

I personally will be visiting with the highest officials in the Departments of Agriculture, Defense, State and AID to discuss their programs and the measures they are taking to increase their cargoes for the region.

It is noteworthy that this new Deputy Administrator that is being appointed, Howard A. Waters, who was here with us this morning, possesses a midwest industry background and has a familiarity with the Great Lakes situation. We are definitely encouraged about the long-term prospects of our marketing program for the region.

I certainly commend the Maritime Administration and the Department of Transportation for the aggressive way that they are now going about doing everything the Government can do to stimulate usage of our Great Lakes ports.

Our next witness this morning is Melvin Pelfrey.

Senator GLENN. Mr. Chairman, might I ask a question first?

The CHAIRMAN. Yes.

Senator GLENN. Do you have to leave, Mr. Sullivan?

Mr. SULLIVAN. Yes, I do.

Senator GLENN. Mr. Chairman, might we ask him some questions before we go on to our other testimony, if you don't mind?

The CHAIRMAN. Certainly.

Senator GLENN. Mr. Sullivan, I am a little surprised that ILA just assumes that user fees are inevitable. You heard the testimony by Mr. Oberlin a few moments ago that we are going to put traffic on the Lakes down if we put the rates up as much as they are talking about for user fees.

Why, that is a 70-percent increase. That is horrendous. We are talking about unemployment with your people, and here we are talking about even more unemployment if we go to higher user fees.

If I gather correctly, you said that President Gleason had testified before the House committee, and that statement, which I won't bother to reread again, sort of assumed that user fees are just inevitable and we are going to accept this. Is that correct?

Mr. SULLIVAN. Senator, I testified yesterday before the House Public Works Committee and they were also interested in our reasoning of this approach. We would like not to see user fees; however, we came to the conclusion that user fees are inevitable in September 1981 following the adoption of the budget resolution and after looking at the facts: for over 12 years not one major navigational project has been authorized by Congress; our ports are steadily becoming less usable, less viable; and nothing was occurring in Congress in the sense that Congress evidently placed a low priority on their traditional approach to the Nation's waterways in authorizing projects.

Now, the choice that we felt we were faced with was the unhappy choice of user fees uniformly applied across the whole range of ports, or that of no ports at all, or ports that are just not usable. We must look at what is occurring in the Gulf of Mexico where the Mexican

Government has committed itself to spend $20 billion over the next 20 years developing a port.

I don't think they are expecting to generate that type of return on their investment from their own economy. I think they are looking to the United States.

Senator GLENN. But you are talking about user fees being applied all over and not just to the St. Lawrence Seaway? Are you talking about general user fees, making them fair for everybody wherever they go?

Mr. SULLIVAN. Absolutely. In the same manner, such as the customs levies are made.

Senator GLENN. OK. What I have been concerned about is that we would put on user fees, but they would have two or three different scales. There would be one for coastal places, and because of the cost of the St. Lawrence Seaway, we would have a much higher fee in the Great Lakes to try to pick up all of the expenses of that. That would put the Great Lakes in a very disadvantageous position if we go that route. Is that what you are referring to?

Mr. SULLIVAN. I quite agree with your analysis. What we envision as user fees uniformly applied is, as I stated, similar to the formula of the customs-fee collections. The removal or the conversion of the debt of the St. Lawrence Seaway into equity should place us on a fairly competitive basis with the other coastal ranges.

Senator GLENN. Well, cargo preferences and things like that might help somewhat on the Great Lakes, but that is not the long-term answer. The long-term answer is to be competitive.

Mr. SULLIVAN. Absolutely. That is the reason we support the Canadian diversion bill. Right now people utilizing the ports, such as Cleveland or the coastal ports, are at a competitive disadvantage because shippers using those ports must file the applicable tariffs with the FMC.

However, if these shippers routed this cargo through a Canadian port, they would not be required to file those tariffs, and could apply whatever price they wished.

Senator GLENN. Thank you.

Those were all the questions that I had, Mr. Chairman, and I will be back in a few minutes.

The CHAIRMAN. Thank you, Senator Glenn.

Mr. Sullivan, I have two questions. Do longshoremen working on the docks of Montreal have any reason to fear the proposals to restructure and refinance the Seaway debt?

Mr. SULLIVAN. That is a difficult question because they don't always speak with one voice. However, in our organization, and we do represent the people in Canada, we have, I think, a consensus that cargo should move through its natural tributaries, and we don't seek unfair advantage for one port over the other or one country over the other.

Our approach is that we should compete fairly and that all the rules of the game are equal.

The CHAIRMAN. How would you answer critics who say that the efforts to relieve the Seaway's financial problems amount to just throwing good money after bad?

Mr. SULLIVAN. I would think that they do not really understand the value of the St. Lawrence Seaway. Its value as a national defense transportation system was demonstrated during World War II. Today, in the planning and rebuilding of the U.S. naval fleet, we find that we do not have vessels that can supply that fleet or that can move large quantities of troops or military material to Third World nations or developing nations.

The Soviet fleet, on the other hand, is mainly comprised of vessels that have "Great Lakes capability." The development of that fleet was not solely for economic purposes. I think in the Great Lakes, despite the constraints that we have, using water transportation and utilizing that waterway is still the best, most energy-efficient and cost-efficient method of moving large quantities of raw materials.

The energy crisis is on hold now, but down the line I think transportation decisions will have to be based on efficient uses of energy, and the Great Lakes provides a great vehicle toward that end.

The CHAIRMAN. Thank you.

Senator Durenberger is with us.

Senator, are you able to stay for a few minutes or do you have to leave right away? We would like you to introduce Davis Helberg before you leave. Why don't you proceed right now?

STATEMENT OF HON. DAVID DURENBERGER, A U.S. SENATOR FROM MINNESOTA

Senator DURENBERGER. Thank you, Mr. Chairman. I appreciate this opportunity a great deal. I have admired you for 3 years and your ability to be able to shift gears during the course of the morning and to be able to be in several places at the same time. I am learning how difficult that is to do, and I see that you are a master of it.

The subject of today's hearing, Mr. Chairman, goes far beyond the legislation that I have introduced along with Senator Glenn and Senator Dixon, as the panelists that you are hearing from are illustrating, I presume.

The issue before us is the economic health of a region and the role that Federal maritime policy can play in either worsening or improving that health. Those of us who appear before the committee on behalf of the Great Lakes States, ports and shippers do so not out of a desire to receive special consideration but out of a desire to receive equal consideration.

The bill that we have introduced removes an inequity which the users of the St. Lawrence Seaway have borne for the past 23 years. It is an inequity unique in its application since the Seaway is the only waterway in American history compelled to generate revenues sufficient to cover its initial construction costs and its annual operation and maintenance expenses.

This singular burden has placed the entire Great Lakes region at a competitive disadvantage, a disadvantage that will worsen considerably if a new system of user fees is imposed on top of the existing cost recovery structure.

What we seek with this legislation, Mr. Chairman, is competitive equities so that Great Lakes ports and the shippers that depend on them can compete on their own merit.

The Seaway debt is only one of a morass of Federal policies which have exacerbated the economic decline of America's industrial heartland. We need look no further than the Minnesota iron range to see the needs for a renewed Federal commitment to improving the problem plaguing our infrastructural industries.

Reserve Mining Co. of Silver Bay, Minn., last week laid off 2,000 of its employees. United States Steel's Minntac plant has laid off 1,800 workers since October, and the remaining 2,000 work a short shift. National Steel and Erie Mining have also significantly reduced their work force in Minnesota.

This dramatic decline in private sector jobs has placed the burden of financing the region's social and public services on the remaining industries in northeastern Minnesota. None of those industries is more important than Duluth's world port, the largest port on the Great Lakes.

U.S.-flag service, cargo preference requirements, tolls, dredging, season extension, construction and operating differential subsidies, and of course the seaway debt are eight issues that our region has brought to the attention of Congress at every opportunity. Each one of those programs presents an inequity unique in its application and devastating in its impact.

They are a collective burden which has placed the entire Great Lakes region at a competitive disadvantage, a disadvantage that will worsen considerably if a new system of user fees is imposed on top of the existing cost recovery structure.

What this committee is discovering today is the overwhelming need to remove those legislative inequities so that Great Lake ports and the shippers that depend on them can compete on their own merits.

Minnesota's role in the development of the seaway is now nearly a century old. In 1892 a Congressman from New Ulm, Minn., which is nowhere near Duluth, by the name of John Lind, introduced the first legislation to authorize construction of a water route to the sea. Thirty years later, Charles P. Craig, a lawyer from Duluth, founded the Great Lakes-St. Lawrence Tidewater Association, the first Washington lobbying group to promote a seaway.

Today another Minnesotan, former Duluth Port director, Dave Oberlin, who is here in the room, begins his 13th year as Administrator of the St. Lawrence Seaway Development Corporation.

It is now, Mr. Chairman, my distinct honor to introduce a member of the panel that is before you, Davis Helberg, the director of the Port of Duluth. He is probably the only individual who could have seen this port through a grain handlers strike, the embargo of grain shipments to the Soviet Union, on which Duluth probably has a larger impact than any other port, and a sharp decline in demand for the port's principal movement : iron ore.

Davis, who was born in Esko, Minn., attended the University of Minnesota-Duluth and is the first native Minnesotan to be selected as director of the port authority. He has spent his lifetime on the lakes and has been of great assistance to me in my efforts in the U.S. Senate. I am proud that he is able to be here today to, I am sure, more personally and probably more feelingly indicate to this committee the importance of the legislation that we have drafted and the importance of the seaway to the economy of that part of this

Nation which is suffering most from the decay of infrastructure in this country.

I thank you very much, Mr. Chairman, for this opportunity.

The CHAIRMAN. We thank you very much for being with us, Senator Durenberger.

Would it be appropriate, then, for Mr. Helberg to go ahead first? I think so.

STATEMENT OF DAVIS HELBERG, EXECUTIVE DIRECTOR, SEAWAY PORT AUTHORITY OF DULUTH, MINN.

Mr. HELBERG. Thank you very much, Senator Durenberger and Mr. Chairman. Let me thank you, if I may, personally for all of your continued interest support, and good works for our work and for the St. Lawrence Seaway, Senator Durenberger. Thank you.

My name is Davis Helberg. I am executive director of the Seaway Port Authority of Duluth. I have prepared a written statement which I would like accepted for the record, Mr. Chairman. If I may, I would like to summarize some of the remarks that I have included in my prepared comments.

We commend you and members of this committee for holding hearings on matters of such vital and urgent importance to us in the Great Lakes. We also applaud Senator Glenn for introduction of S. 422 to extend the repayment period for the remaining bonded indebtedness of the St. Lawrence Seaway.

But while we fully support Senator Glenn's effort and his bill, we must point out that our first preference—and when I say our, I am speaking of the Port of Duluth and of the port authority I represent—would be to have the construction debt cancelled in its entirety.

As Mr. Oberlin said in previous testimony and in questions that have been brought up by the committee, when the St. Lawrence Seaway opened in 1959, we drew the very dubious distinction of becoming the first waterway in the Nation, and we still have that dubious distinction of being the only waterway in the Nation required to pay all of its construction debt and costs as well as all of the administrative maintenance and operational overhead.

In my written testimony I made a brief historical synopsis of where we have gone through these years with St. Lawrence Seaway tolls. I think in summation suffice it to say that in the past 5 years these tolls, which I should point out represent our user fees on the St. Lawrence Seaway, have increased by some 250 percent.

If you would choose, Mr. Chairman, to later get into a discussion on user fees, I would be more than happy to give you my port and my community's position on user fees if you deem it fit at a later moment, but I would like to address one question at this time regarding the repayment of that debt.

Senator Glenn, I said just before you returned that we in Duluth applaud your bill, S. 422, but also, just to reiterate, I must point out that from my port's perspective in Duluth, Minn., our first preference would be to have the debt canceled in its entirety.

Senator GLENN. Let me just add one thing to that, if I might. I was trying to put something in that would do the doable right now—and that was more than a year ago. I don't necessarily oppose Senator

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Durenberger, but I don't know whether he also has OMB approval for his proposal yet or not either. I was trying to do something that I thought was possible, that would be a doable thing, that didn't increase the budget or appropriations by much. I hoped we could at least make one step forward and hoped maybe for more later on.

Mr. HELBERG. Mr. Chairman, Senator Glenn, I appreciate that very much. I can assure you that after 23 Great Lakes navigation seasons, I carry around enough scars to know that sometimes some people like to win and sometimes some people just like to fight. I am not sure sometimes if we are better fighters and poorer winners or just where we are. But we find ourselves fighting continually. We certainly do want to get something done that is doable, and we need to win on some days.

These revenues that have been raised by tolls over the years have enabled the seaway to pay its own way through these 23 navigation seasons. We emphasize that no other Federal waterway is required to "pay its own way." As you heard earlier this morning, that remaining seaway construction debt is about $110 million. I need not remind the committee that this $2 million repayment requirement will escalate to $9.5 million in 1986.

We urge that the committee consider the ramifications of that tremendous balloon effect and how that would drive our onerous seaway tolls right through the proverbial roof.

I should point out, and I say this with mild interest, sometimes more than that, that the Tennessee Tombigbee Waterway is now expected to cost between $2 billion and $3 billion. We took some interest in last year's $189 million appropriation. Now, we do not quibble or quarrel with the Tenn-Tom project, but we are keenly aware that the Congress is not requiring repayment to the Treasury for construction.

We also recall the $1.2 billion Arkansas River Waterway of about a decade ago and scores of other similar projects in this Nation for many, many years paid by the Government, not requiring payback through a toll system.

Again, Senator Glenn, we support S. 422 if that is what is indeed doable, but I must emphasize that, from our point of view, and I speak not for the Great Lakes but for the Port of Duluth, Minn., and for our region, we firmly believe the construction repayment requirement for the U.S. portion of the seaway should be eliminated.

In conclusion, today we believe it is a matter of fairness, but tomorrow it could become a matter of survival.

Thank you.

[Mr. Helberg's prepared statement follows:]

PREPARED STATEMENT OF DAVIS HELBERG

My name is Davis Helberg. I am executive director of the Seaway Port Authority of Duluth, a body politic and corporate created under and existing by virtue of the laws of the State of Minnesota, specifically sections 458.09 through 458.60, Minnesota statutes. Among other things, the port authority is charged with the duty of promoting the general welfare of the port district, increasing the volume of commerce through the port, and promoting the safe and economical handling of such commerce.

We commend Chairman Percy and members of this committee for holding hearings on matters that affect the lives and livelihoods of nearly 15 percent of our Nation's population whose work produces more than 30 percent of the Nation's taxes.

We applaud Senator Glenn for introduction of S. 422 to extend the repayment period for the remaining bonded indebtedness of the St. Lawrence Seaway.

But while we fully support Senator Glenn's bill, we also must point out that our first preference would be to have the construction debt cancelled in its entirety.

We remind the committee that when the St. Lawrence Seaway opened in 1959, it drew the dubious distinction of becoming the Nation's first (and, still only) waterway required to repay the Federal Treasury for all of its construction administration, operations and maintenance costs.

Seaway tolls (user fees) were established in 1959 at a basic rate of $0.40 per short ton for bulk cargo and $0.90 per short ton for general cargo, plus $0.04 per gross registered ton of the vessel. Except for lockage charges added in the early 1970's at the Canadian-owned Welland Canal, the tariff remained unchanged for 18 years. As onerous as the tolls were, inflation had a way over the years of making the level of tolls at least somewhat tolerable.

But then, in 1978, the United States and Canadian seaway entities found it necessary to impose a 3-year escalator to the tariff which, in effect, more than doubled the tolls (see exhibit A). The level remained the same for 1980 and 1981, but now we are faced again with sharp increases for 1982 and 1983 (see exhibit B).

The major increase has been applied to highly cost-sensitive general cargo. From a toll of roughly $0.99 per metric ton in 1977 (the seaway converted to the metric system), the toll for general cargo will have climbed to $2.41 this year and to $2.56 in 1983.

For bulk grain, which represents more than one-half of the seaway's volume, the toll was the equivalent of $0.44 per metric ton in 1977. This year it will be $0.79 and next year it will be $0.83.

These new figures are in addition to vessel charges of $0.145 per gross registered ton in 1982 and $0.15 per gross registered ton in 1983, plus Canadian lockage charges at the Welland Canal.

Revenues raised by the tolls have enabled the seaway to "pay its own way" through these past 23 great lakes navigation seasons. And we emphasize again that no other Federal waterway in the Nation is "paying its own way."

The remaining debt to the Federal Treasury for the original seaway construction is approximately $110 million. The present repayment is $2 million annually but that figure balloons to $9½ million in 1986.

The St. Lawrence Seaway Development Corporation's total budget for this year is slightly less than $12 million. We urge, then, that the committee considers the ramifications of that 450 percent increase scheduled for 1986 and the impact it will have on seaway tolls and seaway traffic.

Meanwhile, we note with more than mild interest that the Tennessee-Tombigbee Waterway is now expected to cost between $2.3 billion and $3 billion and, of course, we took notice of last year's $189 million appropriation. We don't quarrel with the Tenn-Tom project, but we're also keenly aware that the Congress is not requiring repayment to the Treasury for construction.

We also recall the $1.2 billion Arkansas River Waterway construction of a decade ago and scores of other projects ranging from the Columbia River to the Delaware to the Houston ship canal to lock and dam 26 at Alton, Ill. We don't begrudge any of those paid-by-the-Government construction project, either.

But we firmly believe that the construction repayment requirement for the U.S. portion of the seaway must be eliminated. Today it is a matter of fairness—tomorrow it will be a matter of survival.

EXHIBIT A

SEAWAY TOLLS SUMMARY

	Welland Canal	Montreal Lake Ontario
1959 (per net ton of):		
Bulk	$0.02	$0.40.
General	$0.05	$0.90.
Vessel GRT	$0.02	$0.04.
Revenue split	United States—29 percent	Canada—71 percent.
1962	Suspended effective July 18, 1962	As above.
1967 through 1977	Per lock fee of $20 (maximum 1 way $160) To increase $20 annually through 1971 at $100 per lock (maximum 1 way $800).	As above.
Revenue split	United States—27 percent	Canada—73 percent.

SAINT LAWRENCE SEAWAY JOINT TARIFF OF TOLLS, 1978–81

[Per metric ton (1,000 kilograms or 2,204.62 lb.)]

	1978	1979	1980/81
Cargo tolls/commercial vessel charges:			
Combined sections (full transit of Montreal-Lake Ontario (Mo-Lo) and Welland Canal sections):			
Bulk	$0.70	$0.86	$0.99
Containers	.99	.99	.99
Government aid cargoes	.61	.65	.72
Grain	.61	.65	.72
General	1.55	1.88	2.15
Vessel charge, per gross registered ton	.14	.14	.14
Montreal-Lake Ontario section (full transit):			
Bulk	.50	.62	.68
Containers	.68	.68	.68
Government aid cargoes	.41	.41	.41
Grain	.41	.41	.41
General	1.27	1.49	1.65
Vessel charge, per gross registered ton	.07	.07	.07
Welland Canal section (full transit):			
Bulk	.20	.24	.31
Containers	.31	.31	.31
Government aid cargoes	.20	.24	.31
Grain	.20	.24	.31
General	.28	.39	.50
Vessel charge, per gross registered ton	.07	.07	.07

Other charges:

1. Partial transit by commercial vessel (1978–81): Mo-Lo section—15 percent per lock of applicable toll. Welland Canal section—13 percent per lock of applicable toll.

	1978–81	
	Mo-Lo	Welland
2. Per paid-fare passenger	$5.25	$6.00
3. Pleasure craft (minimum charge) (per lock)	4.00	4.00
4. Other vessels (minimum charge) (per lock)	8.00	8.00

Source: Saint Lawrence Seaway Development Corporation, March 1978.

EXHIBIT B

SAINT LAWRENCE SEAWAY JOINT TARIFF OF TOLLS

[Comparison of present tolls with those to be assessed for 1982 and 1983]

	Cargo tolls per metric ton		
	Existing	1982	1983
Montreal-Lake Ontario section (full transit):			
Bulk	$0.68	$0.79	$0.85
Containers	.68	.79	.85
Government aid cargoes	.41	.48	.52
Grain	.41	.48	.52
General	1.65	1.91	2.06
Vessel charge, per gross registered ton	.07	.075	.08
Welland Canal section (full transit):			
Bulk	.31	(1)	(1)
Containers	.31	(1)	(1)
Government aid cargoes	.31	(1)	(1)
Grain	.31	(1)	(1)
General	.50	(1)	(1)
Vessel charge, per gross registered ton	.07	(1)	(1)
Lockage charge, per lock: [2]			
Loaded vessels	None	150.00	250.00
Ballast vessels	None	75.00	187.50
Combined sections (full transit):			
Bulk	.99	1.10	1.16
Containers	.99	1.10	1.16
Government aid cargoes	.72	.79	.83
Grain	.72	.79	.83
General	2.15	2.41	2.56
Vessel charge per gross registered ton	.14	.145	.15
Lockage charge, per lock: [2]			
Loaded vessels	None	150.00	250.00
Ballast vessels	None	75.00	187.50

[1] No change.
[2] New lockage charge for each of the 8 Welland Canal locks is in addition to cargo and vessel GRT tolls.

EXHIBIT C

CERTIFIED COPY OF RESOLUTIONS OF THE CITY COUNCIL OF THE CITY OF DULUTH, MINN.

RESOLUTION 82–0044 BY COUNCILOR BODNE

Whereas the U.S. Congress is presently considering numerous legislative proposals which would impose fees upon maritime shippers using the Great Lakes and other United States navigable waters, and

Whereas such legislative proposals will have far reaching effects and adverse impact on the water transportation system of this country and are likely to have a particularly significant adverse impact on Great Lakes ports such as Duluth, and

Whereas the City Council feels that insufficient study has been given to these legislative proposals at this time to determine the scope of the adverse impact they will have on the water transportation system of this country and the economies of areas such as Duluth which depend upon a healthy water-borne commerce industry: Now, therefore, be it

Resolved, That the Duluth City Council hereby registers its opposition to the adoption by Congress at this time of any user fee legislation relating to water transportation and urges that before any legislation of this nature is considered by Congress, a comprehensive study be undertaken to determine the impact such legislation will have on the country's water transportation system and on the economies of the areas of this country which are dependent upon such system.

Resolved further, That the City Clerk is hereby directed to send copies of this resolution to Senators Boschwitz and Durenberger, Congressman Oberstar, President Reagan, and the Chairmen of Congressional Committees working on this legislation.

Resolution 82–0044 was unanimously adopted.

Approved January 25, 1982.

JOHN A. FEDO, *Mayor.*

I, Kathleen M. Wutz, City Clerk of the City of Duluth, Minnesota, do hereby certify that I have compared the foregoing Resolution adopted by the City Council on the 25th day of January, 1982, with the original in my custody as City Clerk of said City, and that the same is a true and correct transcript therefrom.

In witness whereof, I have hereunto set my hand and affixed the corporate seal of said City of Duluth, this 3rd day of February 1982.

KATHLEEN M. WUTZ,
City Clerk.

By JEFFREY J. COX,
Deputy, City of Duluth, Minn.

RESOLUTION NO. 97 BY COMMISSIONER ANZELC

Whereas that since 1824 the federal government has had and taken the responsibility of maintaining federal channels and waterways for the nation's ports and harbors; and

Whereas both the private and public sectors have invested billions of dollars to develop our nation's ports in the good faith understanding that the federal government would continue to maintain waterways and channels; and

Whereas dock owners and operators have been and will continue to be responsible for the maintenance and dredging of their own slips and access to the federal channels; and

Whereas even though it is recognized that there is an urgent need for expediting procedures for new dredging projects, it is our contention that this can be accomplished through basic proceduran changes or methods other than assessment of user fees; and

Whereas user fees imposed at ports of loading and discharge of domestic commerce such as iron ore and taconite would tend to make foreign ores (which would pay a fee only at the discharge port) more competitive thereby threatening basic American industry; and

Whereas the nation's ports are already paying their way through direct returns to the U.S. Treasury of fees and duties collected by the U.S. Customs Service in addition to paying normal and customary taxes to the federal government; and

Whereas such user fees will most surely be passed on to the consumer: Now, therefore, be it

Resolved, That the St. Louis County Board of Commissioners does oppose any fees that would tend to divert, distort or disrupt the present flow of cargo, traditional traffic patterns or present movement of waterborne commerce along the nation's waterways.

Commissioner Anzelc moved the adoption of the Resolution and it was declared adopted upon the following vote: Yeas—Commissioners Dodge, Kron, Hall, Shannon, Hoff, Anzelc and Chairman Doty—7; Nays—None.

I, Russell Petersen, Auditor of the County of St. Louis, do hereby certify that I have compared the foregoing with the original resolution filed in my office on the 8th day of February A. D. 1982, and that the same is a true and correct copy of the whole thereof.

Witness my hand and seal of office at Duluth, Minnesota, this 8th day of February A. D. 1982.

RUSSELL PETERSEN,
County Auditor.
By RAYMOND G. CARLSON,
Clerk of County Board.

RESOLUTION NO. 82–13 BY COMMISSIONER MASSIE

Whereas that since 1824 the federal government has had and taken the responsibility of maintaining federal channels and waterways for the nation's ports and harbors; and

Whereas both the private and public sectors have invested billions of dollars to develop our nation's ports in the good faith understanding that the federal government would continue to maintain waterways and channels; and

Whereas dock owners and operators have been and will continue to be responsible for maintenance and dredging of their own slips and access to the federal channels; and

Whereas even though it is recognized that there is an urgent need for expediting procedures for new dredging projects, it is our contention that this can be accomplished through basic procedural changes or methods other than assessment of user fees; and

Whereas user fees imposed at ports of loading and discharge of domestic commerce such as iron ore and taconite would tend to make foreign ores (which would pay a fee only at the discharge port) more competitive thereby threatening basic American industry; and

Whereas the nation's ports are already paying their way through direct returns to the U.S. Treasury of fees and duties collected by the U.S. Customs Service in addition to paying normal and customary taxes to the federal government; and

Whereas such user fees will almost surely be passed on the consumer: Now, therefore, be it

Resolved, That the Cook County Board of Commissioners is opposed to any fees that would tend to divert, distort or disrupt the present flow of cargo, traditional traffic patterns or present movement of waterborne commerce along the nation's waterways.

Commissioner Hull moved the adoption of the resolution and it was declared adopted upon the following vote: Ayes: Massie, Hull, Lindskog, Thompson and Hansen; Nays: None; Absent: None.

I, Carol Gresczyk, Auditor of the County of Cook, do hereby certify that I have compared the foregoing with the original resolution filed in my office on the 9th day of February A.D., 1982, and that the same is a true and correct copy of the whole thereof.

Witness my hand and seal of office at Grand Marais, Minn., this 11th day of February A.D., 1982.

CAROL GRESCZYK, *County Auditor.*

RESOLUTION NO. 2–82–6, RE OPPOSITION TO PROPOSED USER FEE FOR WATERBORNE COMMERCE BY COMMISSIONER BAILEY

Whereas that since 1824 the federal government has had and taken the responsibility of maintaining federal channels and waterways for the nation's ports and harbors; and

Whereas both the private and public sectors have invested billions of dollars to develop our nation's ports in the good faith understanding that the federal government would continue to maintain waterways and channels; and

Whereas dock owners and operators have been and will continue to be responsible for maintenance and dredging of their own slips and access to the federal channels; and

Whereas even though it is recognized that there is an urgent need for expediting procedures for new dredging projects, it is our contention that this can be accomplished through basic procedural changes or methods other than assessment of user fees; and

Whereas user fees imposed at ports of loading and discharge of domestic commerce such as iron ore and taconite would tend to make foreign ores (which would pay a fee only at the discharge port) more competitive thereby threatening basic American industry; and

Whereas the nation's ports are already paying their way through direct returns to the U.S. Treasury of fees and duties collected by the U.S. Customs Service in addition to paying normal and customary taxes to the federal government; and

Whereas such user fees will most surely be passed on to the consumer; Now therefore be it

Resolved, That the Itasca County Board of Commissioners is opposed to any fees that would tend to divert, distort or disrupt the present flow of cargo, traditional traffic patterns or present movement of waterborne commerce along the nation's waterways.

Commissioner Herbst seconded the motion for the adoption of the resolution and it was declared adopted upon the following vote: Ayes: 5. Nays: 0.

I do hereby certify that I have compared the foregoing with the original resolution filed in my office on the 2nd day of February, A.D. 1982, and that the same is a true and correct copy of the whole thereof.

Witness my hand and seal of office at Grand Rapids, Minnesota, this 2nd day of February, A.D. 1982.

LLOYD E. NESSETH,
County Administrator.

RANGE ASSOCIATION OF MUNICIPALITIES

RESOLUTION OPPOSING USER FEES FOR USE OF THE HARBORS AND CHANNELS OF THE GREAT LAKES

Whereas it is proposed by the Reagan Administration that user fees be imposed on traffic using the Harbors and Channels of the Great Lakes, and

Whereas the Taconite industry of Northeastern Minnesota is presently in a most depressed condition and is in competition with iron ore and taconite pellets brought into the Great Lakes markets by use of the St. Lawrence Seaway, and

Whereas high railway and lake freight charges presently in effect for Taconite Pellets produced in Northeastern Minnesota places the Minnesota taconite operators at a great disadvantage with producers of taconite pellets from other areas, and

Whereas the imposition of User Fees and charges for the use of the Harbors and Channels of the Great Lakes, as is being proposed by the Reagan Administration woud be most detrimental to the taconite industry of Northeastern Minnesota, thereby seriously affecting most seriously the economy of the Iron Range its communities, its workers and its people: Now therefore be it

Resolved, by the Range Association of Municipalities and Schools, composed of 47 Iron Range Cities, Towns and School Districts, at its Annual Meeting held this 5th day of November, 1981, at Hoyt Lakes, Minnesota, that it go on record vigorously opposing the imposition of User Fees and Charges for use of the Harbors and Channels of the Great Lakes, as is presently being proposed by the Reagan Administration, as the imposition of such User Fees and Charges will have a most adverse affect on the cost of delivering taconite pellets produced on the Iron Ranges of Northeastern Minnesota to the steel mills in the Great Lakes Region, thereby seriously affecting the competitive position of the Minnesota Taconite Industry and the economy of the Iron Range Communities, its workers and its people; be it further

Resolved, That copies of this Resolution be sent to President Reagan, Senators David Durenburger and Rudy Boschwitz; and Congressman James Oberstar.

Adopted this 5th day of November, 1981.

GEORGE DAMJANOVICH, *President.*

Attest:

MARLEN POSPECK, *Secretary.*

INTERNATIONAL SHIPMASTERS ASSOCIATION,
Duluth, Minn., December 15, 1981.

Hon. JAMES OBERSTAR,
U.S. House of Representatives,
Washington, D.C.

DEAR JIM: We are writing to express our urgent concern regarding "User Fee Legislation".

It is impossible to respond to each of the many bills introduced in both the House and the Senate concerning U.S. Navigable Waters.

The Great Lakes is unique in that the system must be considered as a whole. No port survives on its own but includes the connecting rivers and the Seaway itself, which has its own ever-increasing "user fee". The Lakes must be considered as a whole, on the overall transportation system balance between ports will collapse. Equity must be maintained not only between U.S. Ports but also between U.S. and Canadian Ports. Hasty changes not properly conceived will be disasterous.

The impact is so significant that we suggest all bills be tabled and a Presidential Committee be appointed to objectively research this serious matter of economic survival and National Security.

We oppose "user fees" and urge your help to stop the current madness.

Respectfully,

C. G. PORTER, *Secretary.*

RESOLUTION OF ILA LOCALS 444 AND 2010

Whereas the Federal Government has been responsible for the dredging and maintenance of navigable waterways for more than 150 years; and

Whereas bills have been introduced in the 97th Congress (specifically S. 809 and S. 810) requiring that fees be collected by "appropriate non-federal public interests" to reimburse the Federal Government "on a port-by-port basis with appropriate shares of entrance and connecting channel costs allocated to each port:" and,

Whereas annual costs to commercial waterway users under such legislation would total hundreds of millions of dollars, thus creating havoc in our maritime industry and potentially drying up many of our nation's ports and connecting waterways; and,

Whereas Article 2, Section 10 of the U.S. Constitution provides that "No state shall, without the consent of Congress, lay any imposts or duties on imports or exports, except what may be absolutely necessary for executing its inspection laws" and that "No state shall, without the consent of the Congress, lay any duty of tonnage. . . .": Now, therefore, be it

Resolved, That the Maritime Trades Division of the International Longshoremen's Association urgently recommends that the present system of Federal Government control of and payment for the dredging and maintenance of navigable waterways be kept intact in order to save the jobs, the industries and the investments created by our national and international ports.

PORT OF DULUTH-SUPERIOR,
Duluth, Minn.

Hon. JAMES OBERSTAR,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN OBERSTAR: We are writing to call your immediate attention to the urgent concern we have regarding "User Fee Legislation" being considered for the Great Lakes and all other U.S. Navigable Waters. The Propeller Club of Duluth, Minnesota and Superior, Wisconsin consists of people from all

areas of the marine community and others who have vested interest in a strong and competative maritime commerce system. The membership is distressed at the haphazard and irresponsible manner in which numerous legislators are attempting to push through pieces of "User Fee Legislation". This type of legislation is not in the best interest of the Twin Ports of Duluth/Superior, the Great Lakes or the National Economy and cannot be taken lightly. We strongly oppose any form of "User Fee Legislation" and urgently request your support in defeating any such proposals.

At the present time it is impossible to respond to the rapidly increasing numbers of bills that are being proposed and to properly educate those parties concerned as to the disastrous affect that such legislation would have on traditional commerce patterns as they now exist. We strongly recommend that some effective Congressional leadership be exerted to consolidate these various pieces of legislation and ensure that they are channeled through a single committee to which all concerned parties could provide their input. The consequences of "User Fee Legislation" are so far reaching and the economic impact so significant that we feel all present legislation should be tabled and a Presidential Committee appointed to properly study this matter. We are confident that such a committee will objectively conclude that: such legislation is not in the national security or economic interests of this country; existing trade patterns would be adversely affected; that the Great Lakes is a unique transportation system that does not lend itself to such legislation; and that the entire country is in fact a "User" of waterborne transportation making the entire concept moot and an unnecessary departure from the traditional role of the U.S. Government in developing and maintaining waterborne transportation.

We need your immediate and full support to defeat "User Fee Legislation" and as an organization will strive to educate your local constituency as to the impact that such legislation would have on the local economy. It is requested that you keep the Propeller Club informed as to your efforts in this behalf and let us know how we may be of assistance to you.

Respectfully yours,

PETER HARRIS,
President, Duluth/Superior Propeller Club.

The CHAIRMAN. Thank you very much indeed.

Our next witness is an old friend. He is Frank Kudrna, chairman of the Great Lakes Commission and director of the Illinois Division of Water Resources.

Frank, we very much appreciate your cooperation and support in our Chicago hearings. We are pleased to hear from you now.

STATEMENT OF FRANK KUDRNA, CHAIRMAN, GREAT LAKES COMMISSION; AND DIRECTOR, ILLINOIS DIVISION OF WATER RESOURCES, CHICAGO, ILL.

Mr. KUDRNA. Thank you, Mr. Chairman. I represent the Great Lakes Commission, which is an interstate compact organization of the eight Great Lakes States of Illinois, Indiana, Michigan, Minnesota, New York, Ohio, Pennsylvania, and Wisconsin.

I would like to enter my full testimony into the record. And because of time, I will abbreviate my remarks.

I want to address the importance of the Great Lakes and St. Lawrence Seaway water transportation system to your committee today. Specifically, I will discuss some of the history of the system, the impact of the existing user charges in place on the seaway system, and the potential for closing down the St. Lawrence Seaway system if quick action is not taken to address the issues of debt and tolls on the system.

The Great Lakes and the seaway system are important and integral parts of our total national water transportation system. The industial Midwest, an important economic center of the country, has for years

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depended upon economic water transportation as one means of moving commodities to market, and perhaps more importantly, moving commodities in international commerce.

With the serious discussion that is now underway on the administration's and other proposals for user charges for the deep-draft system, it is appropriate to review and alter the debt repayment requirement for the seaway. The revitalization of the Great Lakes shipping industry is of critical importance to the entire Midwest and to numerous ports on the lakes, the inland modes which transport cargoes to and from the ports and port labor.

The decline of the Great Lakes as a major overseas shipping artery is evidenced by the near absence of U.S.-flag vessel service and the reduction in overall number of savings to the ports.

The lack of U.S.-flag vessel service to the Great Lakes is demonstrated by the fact that out of a total of 1,400 U.S.-flag sailings, in 1981 from U.S. ports, only 6, or less than one-half of 1 percent, originated or terminated at Great Lakes ports.

The overall decline of the maritime industry on the Great Lakes can be shown by comparison of the present number of vessel sailings, both United States and foreign flag from Great Lakes ports in comparison to peak-year sailings. For example, the Port of Chicago had 683 sailings in 1971 and only 266 sailings in 1979. There are similar figures in my testimony for other ports on the lakes.

A number of factors has contributed to the reduction in Great Lakes vessel sailings, including the limited 8½ month shipping season through the St. Lawrence Seaway, the size of the locks which restricts the type of vessels that can enter the system, inequitable imposition of the trigger price mechanism on steel imports, the previous Soviet grain embargo, and discriminatory railroad rates that divert traffic form the direct all-water route via Great Lakes ports to the tidewater coastal ports.

In addition, the imposition of tolls on cargoes transiting the seaway, while no other deep-draft facilities has been charged has placed the Great Lakes at a competitive disadvantage to other coasts to attract the movement of overseas cargoes.

Congress authorized the construction of the St. Lawrence Seaway on May 13, 1954, wih the passage of the Wylie-Donders Act, also known as the Seaway Act. The act authorized U.S. participation in the funding and construction of that portion of the seaway located within the borders of the United States.

It also established the St. Lawrence Seaway Development Corporation and empowered that corporation to work with its Canadian counterpart, the St. Lawrence Seaway authority, to prepare agreements relative to construction and operation of the Seaway, cooperate in the operation, and negotiate the level of tolls for vessels transiting the seaway.

Initially, the corporation was responsible to the Secretary of Defense and the Department of Commerce. However, as we heard earlier, with the creation by Congress of the Department of Transportation, it was placed within that department.

Construction began in 1955 and was completed in 1959. The total cost was approximately $470 million, of which Canada paid $336 million and the U.S. $133 million.

Under the provisions of the Seaway Act the St. Lawrence Seaway Development Corporation was authorized to establish tolls on vessels and cargoes sufficient to repay the costs of construction and pay interest and the annual cost of operating and maintaining the U.S. portion of the seaway.

The 1970 amendments to the Merchant Marine Act of 1936 eliminated the payment of the outstanding interest on the construction debt. Since the opening of the Seaway in 1959 the tonnage of cargoes handled in the Montreal-Lake Ontario section has increased by over 160 percent, from 20.6 million tons in 1959 to 54.3 million tons in 1980.

During the peak year of 1977, 63.3 million tons of cargo was shipped through that part of the Seaway. This increase in total tonnage through the Seaway has been the result of substantial shipments of grain, iron and steel, and other relatively low-valued bulk commodities.

In the higher valued liner cargoes, including containers and general cargoes, the Seaway system has experienced a marked decline. In order to reverse the decline of general cargo shipments and to compete with the coastal ports for the shipment of containerized cargoes, the Great Lakes ports have invested in modern facilities and equipment.

As you know, an example in the State of Illinois is where the State provided $15 million to the Chicago Regional Port District in 1979 to construct a new container port on Lake Michigan. The port, known as the Iroquois Landing Lakefront Terminus, was completed and its first full year of operation was 1981.

Similar facilities have been constructed by other major port districts of the Great Lakes. The St. Lawrence Seaway is the only water transportation facility constructed by the Federal Government within the continental United States that is required to be self-supporting from the standpoint of operations and maintenance, and in addition, to pay back the cost of initial construction.

Through the end of 1981 shipping season, the St. Lawrence Seaway Development Corporation had paid about $64.4 million to the U.S. Treasury, including $37 million in interest payments until 1970 and about $26 million on the principal of that construction debt.

In addition, the Seaway Corporation has paid for the operation and maintenance of the seaway without any appropriation of funds from Congress. In order to enable the two countries to continue to operate and maintain the Seaway, the United States and Canada have negotiated increases that will average 18 percent in 1982 and 10 percent in 1983. You have heard this earlier from the administrator.

A study of the impacts of the toll increase projects an overall decrease of 3.1 percent in tonnage shipped through the Seaway due to the diversion of traffic to other modes. Under the new toll schedule, commodity groups will be subject to significant increases for transit through the Montreal-Lake Ontario section of the system.

And in my testimony there are some detailed figures illustrating these increases.

With these expected increases and increased competition between U.S. ports for all commodity groups, this will have a critical impact on the capability of the Gerat Lakes to serve the needs of shippers.

The present schedule of capital repayments is $2 million per year through 1985 and then increasing to $9.5 million in 1986, with $9 mil-

lion for 1988, and a gradual decrease to $5 million through 1996 and then beyond that.

It is estimated with the significant $7.5 million increase in 1986, that as a minimum there will be a required toll increase of 70 percent over the 1983 level of tolls to meet that payment. This will increase the percentage of tolls going for debt repayment from 18 percent to 54 percent. And this, coupled with potential user fees on a deep-draft system that have been proposed, would most probably result in a dramatic decline of Seaway traffic, thus wrecking havoc on the whole Great Lakes water transportation system.

Mr. Chairman, the Great Lakes Commission recognizes the responsibility of State and local governments as well as private interests to do everything possible to promote the industrial Midwest and the Great Lakes-St. Lawrence Seaway water transportation system. While I appear before your committee today to argue for modifications in the debt that is hanging over the St. Lawrence Seaway Development Corportation like a dark cloud, there are many other actions that we are taking to try to save the St. Lawrence Seaway.

We believe that the Seaway, in conjunction with the Great Lakes, is an important water transportation artery of national and international significance. Among our goals are those of not only promoting this water transportation system but also, where possible, improving it.

The Commission is right now involved in a cooperative approach with other public and private agencies to develop what we are calling a Great Lakes Cargo Marketing Corporation. This corporation, which we anticipate will be incorporated within the next 30 to 45 days, will be a unique public, private, and not-for-profit organization whose goals are to improve the marketability of the Great Lakes-St. Lawrence Seaway system.

However, the issue before us today is the debt of the U.S. side of the Seaway. The outstanding debt of some $109 million needs to be dealt with. In 1977 Canada changed its approach to debt repayment and essentially converted the debt to equity and payments on the equity. Dividends of a sort are made in proportion to what the United States is recovering.

I again remind you that the St. Lawrence Seaway is the only water transportation link in the United States that is and has been required to be not only self-supporting from the standpoint of operations and maintenance, but also pay off all its construction debt.

While I personally believe that user charges will be initiated and I support equitable user charges that recognize the differences between ports and the importance of water transportation to our national economy, I strongly argue for equity in treatment of the St. Lawrence Seaway system.

No other system in the United States is being required to pay off the debt for construction of some 20 years ago. Why should the Seaway be singled out as unique in this fashion?

Recognizing the need to address the Seaway debt issue, the National Governors Association, on February 23, 1982, adopted a position statement on deep-draft navigation user charges. This position addresses specifically the St. Lawrence Seaway debt by stating that—

All prior capital expenditures for projects by the U.S. Government in deep-draft harbors, locks, and other facilities, including the outstanding debt for the Saint Lawrence Seaway Development Corporation, should be forgiven and should be exempt from cost recovery.

And that was passed by the entire National Governors Association last month.

Equity cries out for forgiveness of the Seaway debt. Other alternatives, such as conversion to equity or toll credits against user charges at the ports, certainly deserve consideration. But the fairest approach is total forgiveness of the debt so that the Seaway is on an equal footing with all other portions of the system.

Failure to do this, as we are faced with a significant increase in debt payments in 1986, may cause the effective closing of the Seaway. The economy of the Midwest and our water transportation system cannot support a significant increase in debt payments and should not be required to do so.

The possibility for significant economic dislocation, a reduction in the exports because of a reduction in our competitiveness, and the importance of the economy of the Midwest should insure that our recommendations that the debt be forgiven be given not only serious consideration but be implemented.

Thank you, Mr. Chairman. I would be pleased to answer any questions.

[Mr. Kudrna's prepared statement follows:]

PREPARED STATEMENT OF FRANK KUDRNA

Mr. Chairman, members of the Committee, I am Frank Kudrna, Chairman of the Great Lakes Commission. The Commission is an interstate compact commission formed in 1955 by the States of Illinois, Indiana, Michigan, Minnesota, New York, Ohio, Pennsylvania, and Wisconsin. The Commission's concerns range from regional economic issues, such as industrial development, imports and exports, ports and shipping to the resource management issues of water supply, water quality, shoreline use for recreation and fisheries and management.

The Great Lakes Commission is charged with representing the collective interests of the State legislatures, the Governors and State water administrators to the Congress and to the Federal agencies as policies are developed. We work with unions, shipping companies, ports, environmental groups, academic institutions, Federal agencies, State agencies, and associations of the foregoing. We also serve as an information and referral service for groups and individuals with specific problems.

In my remarks today, I want to address the importance of the Great Lakes and St. Lawrence Seaway water transportation system. Specifically, I will discuss some of the history of this system, the impact of the existing user charges in place on the Seaway system and the potential for closing down the St. Lawrence Seaway system if quick action is not taken to address the issues of debt and tolls on the system.

The Great Lakes and the Seaway system are important and integral parts of our total national water transportation system. The industrial Midwest, an important economic center of the country, has for years depended upon economic water transportation as one means of moving commodities to market and perhaps more importantly moving commodities in international commerce. With the serious discussion that is now underway on the Administration's and other proposals for user charges for the deep-draft system, it is appropriate to review and alter the debt repayment requirement for the Seaway.

The revitalization of the Great Lakes shipping industry is of critical importance to the economy of the entire Midwest and to the numerous ports on the Lakes, the inland modes which transport cargoes to and from the ports, and port labor. The decline of the Great Lakes as a major overseas shipping artery

is evidenced by the near absence of U.S. flag vessel service and the reduction in the overall number of sailings to the ports. The lack of U.S. flag vessel service to the Great Lakes is demonstrated by the fact that out of a total of 1,400 U.S. flag vessel sailings in 1981 from U.S. ports, only 6, or less than one-half of 1 percent, originated or terminated at Great Lakes ports. The overall decline of the maritime industry on the Great Lakes can be shown by a comparison of the present number of vessel sailings, both United States and foreign flag, from Great Lakes ports in comparison to peak year sailings. For example, the Port of Chicago had 683 sailings in 1971 and only 266 sailings in 1979. Detroit had 702 sailings in 1968 and only 291 sailings in 1979, while Cleveland had 428 sailings in 1971 and only 167 in 1979.

A number of factors have contributed to the reduction in Great Lakes vessel sailings, including the limited 8½ month shipping season through the St. Lawrence Seaway, the size of the locks which restricts the type of vessels that can enter the system, inequitable imposition of the Trigger Price Mechanism on steel imports, the previous Soviet grain embargo, and discriminatory railroad rates that divert traffic from the direct all-water route via Great Lakes ports to the tidewater coastal ports. In addition, the imposition of tolls on vessels and cargoes transiting the Seaway, while no other deep-draft facilities have been charged, has placed the Great Lakes at a competitive disadvantage in relationship to other coasts to attract the movement of overseas cargoes.

Congress authorized the construction of the St. Lawrence Seaway on May 13, 1954 with the passage of the Wiley-Donders Act, also known as the Seaway Act. The Act authorized U.S. participation in the funding and construction of that portion of the Seaway located within the borders of the United States. It also established the Saint Lawrence Seaway Development Corporation (SLSDC) and empowered the Corporation to work with its Canadian counterpart—the St. Lawrence Seaway Authority—to prepare agreements relative to construction and operation of the Seaway, cooperate in the operation and negotiate the level of tolls for vessels transiting the Seaway. Initially, the Corporation was responsible to the Secretary of Defense and the Department of Commerce; however, with the creation by Congress of the Department of Transportation in 1966, the SLSDC was placed within that Department.

Construction of the Seaway began in 1955 and was completed in 1959, at a total cost of about $470 million, of which Canada paid $336.5 million and the U.S. share was $133.8 million. Under the provisions of the Seaway Act, the SLSDC was authorized to establish tolls on vessels and cargoes sufficient to repay the costs of construction plus interest and the annual costs to operate and maintain the U.S. portion of the Seaway. The 1970 amendments to the Merchant Marine Act of 1936 eliminated the payment of the outstanding interest on the construction debt.

Since the opening of the Seaway in 1959, the tonnage of cargoes handled in the Montreal-Lake Ontario section has increased by over 160 percent, from 20.6 million tons in 1959 to 54.3 million tons in 1980. During the peak year of 1977, 63.3 million tons of cargo was shipped through this part of the Seaway. This increase in total tonnage through the Seaway has been the result of substantial shipments of grain, iron and steel and other relatively low valued bulk commodities. In the higher valued liner cargoes, including containers and general cargoes, the Seaway system has experienced a marked decline. In order to reverse the decline of general cargo shipments and to compete with coastal ports for the shipment of containerized cargoes, the Great Lakes ports have invested in modern facilities and equipment. As an exemple, the State of Illinois provided $15 million to the Chicago Regional Port District in 1979 to construct a new container port on Lake Michigan. The port, known as the Iroquois Landing Lakefront Terminus, completed its first full year of operation in the 1981 shipping season. The facility provides shippers with berthing capacity for 4 Seaway-sized vessels, nearly 30 acres of paved storage are for containers, over 200,000 square feet of inside storage and efficient access to both railroad and truck transportation.

The St. Lawrence Seaway is the only water transportation facility constructed by the Federal government, within the continental United States, that is required to be self-supporting from the standpoint of operations and maintenance and, in addition, pay back the cost of the initial construction. Through the end of the 1981 shipping season, the SLSDC had paid about $64.4 million to the U.S. Treasury, including $37.6 million in interest payments until 1970 and about $26.8 on the principal of the construction debt. In addition, the SLSDC has

paid for the operation and maintenance of the Seaway without any appropriation of funds from Congress.

In order to enable the two countries to continue to operate and maintain the Seaway, the United States and Canada have negotiated toll increases that will average 18 percent in 1982 and 10 percent in 1983. A study of the impacts of this toll increase projects an overall decrease of 3.1 percent in tonnage shipped through the Seaway, due to the diversion of traffic to other modes.

Under the new toll schedule, commodity groups will be subject to the following increases for a transit through the Montreal-Lake Ontario section of the Seaway:

TOLL PER METRIC TON

Commodity	1981	1982	1983
Bulk	$0.68	$0.79	$0.85
Containers	.68	.79	.85
Grain	.41	.48	.52
General	1.65	1.91	2.06
Government aid cargo	.41	.48	.52
Vessel, per gross registered ton	.07	.075	.08

There will be no change in the existing toll schedule to transit the Welland Canal, however, a lockage charge will be introduced. These charges in 1982 will be $150 per lock for a loaded vessel and $143 for a vessel in ballast, and in 1983 will be $250 per lock for a loaded vessel and $188 for a vessel in ballast. Because there are 8 locks in the Welland, a full transit in 1983 for a vessel that is loaded on both the inbound and outbound trip will add $2,000 per transit or $44,000 to the cost to operate the vessel in Great Lakes service.

A typical ocean-going bulk vessel calling at Great Lakes ports can carry about 25,000 metric tons when loaded to the maximum 26-foot Seaway draft. For an outbound vessel loaded with coal, the charge in 1981 on the coal alone was 31 cents per ton or about $8,000 to transit the Welland Canal and 68 cents per ton or $17,000 for the Montreal-Lake Ontario section. The total toll charges on the outbound coal in 1981 would have been about $25,000. With the increase on bulk cargoes transiting the Montreal-Lake Ontario section by 17 cents per ton by 1983, the charge on the coal would increase by $4,250, to a total of $20,250. Adding lockage charges at the Welland for an inbound movement in ballast and an outbound movement loaded with coal will amount to about $3,500. Thus, the overall effect of the too increases by 1983 (not accounting for the charge on the size of the vessel) will be to increase the round-trip cost to the Great Lakes of this vessel by $8,000. This will increase the delivered price of the coal by 32 cents per ton. With the expected increased competition between the ports on the U.S. coasts, for all commodity groups, this increase could have a critical impact on the capability of the Great Lakes to serve the needs of shippers.

The present schedule of capital payments is $2 million per year through 1985 then increasing to $9½ million in 1986, $9 million in 1987, $8.5 million for 1988 and a gradual decrease to $5 million in 1996 and then to $1 million in 2001. It is estimated with the significant $7.5 million increase in 1986, that as minimum, there will be required a toll increase of about 70 percent over the 1983 level of tolls to meet this payment. This will increase the percentage of the tolls going for debt payments from 18 percent to 54 percent. This, coupled with user fees on the deep-draft system, will most probably result in a dramatic decline in Seaway traffic thus wrecking havoc with the whole Great Lakes water transportation system.

Mr. Chairman, the Great Lakes Commission recognizes the responsibility of State and local governments as well as private interests to do everything possible to promote the industrial Midwest and the Great Lakes-St. Lawrence Seaway water transportation system. While I appear before your committee today to argue for modifications in the debt that is hanging over the St. Lawrence Seaway Development Corporation like a dark cloud, there are many other actions that we are taking to try to save the St. Lawrence Seaway. We believe that the Seaway in conjunction with the Great Lakes is an important water transportation artery of national and international significance. Among our goals are those of not only promoting this water transportation system but also, where possible, improving it. The Commission is right now involved in a cooperative approach

with other public and private agencies to develop what we are calling the "Great Lakes Cargo Marketing Corporation". This corporation, which we anticipate will be incorporated within the next 30 to 45 days, will be a unique public-private not-for-profit organization whose goals are to improve the marketability of the Great Lakes-St. Lawrence Seaway system.

However, the issue before us today is the debt of the U.S. side of the Seaway. The outstanding debt of some $109 million needs to be dealt with. In 1977 Canada changed its approach to debt repayment and essentially converted the debt to equity and payments on the equity (dividends of a sort) are made in proportion to what the United States is recovering.

I again remind you that the St. Lawrence Seaway is the only water transportation link in the United States that is and has been required to be not only self supporting from the standpoint of operations and maintenance but also pay off its construction debt. While I personally believe that user charges will be instituted and I support an equitable user charge system that recognizes the differences between ports and the importance of water transportation to our national economy, I also strongly argue for equity in treatment of the St. Lawrence Seaway system. No other system in the United States is being required to pay off debt for construction of some 20 years ago, why should the Seaway be singled out as unique in this fashion.

Recognizing the need to address the Seaway debt issue, the National Governors' Association, on February 23, 1982, adopted a position statement on deep-draft navigation user charges. This position addresses specifically the St. Lawrence Seaway debt by stating that ". . . all prior capital expenditures for projects by the U.S. Government in deep-draft harbors, locks and other facilities including the outstanding debt of the St. Lawrence Seaway Development Corporation should be forgiven and be exempt from cost recovery."

Equity cries out for forgiveness of the Seaway debt. Other alternatives such as conversion to equity or toll credits against user charges at the ports certainly deserve consideration but the fairest approach is total forgiveness of the debt so that the Seaway is on equal footing with all other portions of the system. Failure to do this, as we are faced with a significant increase in debt payments in 1986, may cause the effective closing of the Seaway. The economy of the Midwest and our water transportation system cannot support a significant increase in debt payments and should not be required to do so. The possibilities for significant economic dislocation, a reduction in exports because of a reduction in our competitiveness and the importance of the economy of the Midwest should insure that our recommendations that the debt be forgiven be given not only serious consideration but be implemented.

Mr. Chairman, I thank you for the opportunity to appear before your committee today to discuss this very important issue. I and the Great Lakes Commission stand ready to answer any questions that you have either today or in writing, whatever your preference is.

The CHAIRMAN. Chairman Kudrna, thank you very much. You sound an ominous note in your closing as to the possibility of effectively closing the Seaway. That certainly would stand in sharp contrast to the need to revitalize the entire American economy.

As you point out in your testimony, the revitalization of the Great Lakes shipping industry is of critical importance to the economy of the entire Midwest, which is one of the most depressed areas in the country today because of our dependence upon automobile, construction, and steel and so forth. This is an area where we must really concentrate our efforts.

I have two questions. You have worked with the Canadians. How would the Canadian counterparts respond to the proposal to restructure or refinance the U.S. seaway debt?

Mr. KUDRNA. Mr. Chairman, it is my opinion that the Canadians have traditionally followed suit with the United States. Their conversion to equity calls for payment of $2 million, which is the current payment made by the United States. If we went to $8.5 million, I think

there is a likelihood that the Canadians would go to $8.5 million on their side, thereby compounding the problem.

I suspect that the Canadians would follow suit with the actions on the United States as they have in the past.

The CHAIRMAN. There was a comment that the Governors Association, an action taken at their meeting in February of this year. If the States are forced to absorb the costs attendant with any action to refinance the debt, do you suppose their position would have altered?

Mr. KUDRNA. Mr. Chairman, what the Governors said was in terms of overall user fees, which was the issue they were addressing, there are two very significant factors. One, traditionally, the waterways of the United States are an integral system that have been used for defense in the past, and there is a Federal interest in that regard.

Second, over $5.5 billion come from custom duties on water-related commerce, and there is a significant Federal interest in insuring that those revenues continue to be produced.

On the basis of that, the Governors said that they feel that up to 25 percent of the cost should be recovered locally and they were prepared to live with that position, if the forgiveness of the St. Lawrence Seaway debt and any other prior construction debts also takes place.

The CHAIRMAN. Thank you very much.

Senator Glenn, do you have any questions? And if you would be good enough to introduce Chairman Pelfrey and take the chair for me, I must leave.

Senator GLENN. Thank you very much, Mr. Chairman. I will be happy to do that. I am sorry you are not able to stay. We will proceed with this hearing.

The CHAIRMAN. Thank you.

Senator GLENN. Mr. Pelfrey is chairman of the Great Lakes Task Force and is from Toledo, Ohio. We look forward to your testimony.

The CHAIRMAN. I am pleased to say that I am pleased to join you as a cosponsor of the amendment.

Senator GLENN. Thank you very much.

STATEMENT OF MELVIN H. PELFREY, CHAIRMAN, GREAT LAKES TASK FORCE, TOLEDO, OHIO

Mr. PELFREY. Mr. Chairman, Senator Glenn, due to a mixup in signals I am sorry to say I do not have a prepared statement, and my colleagues seem to have covered all of the points very well.

We just came from a meeting of the Great Lakes Task Force. We have an annual Great Lakes Maritime Day. Normally, we look upon the Great Lakes Maritime Day, or the Washington Roundup, as the opening of the navigation season on the Great Lakes. Usually, it is a very festive occasion, much like a farmer heralds the first robin in the spring.

But this spring we do not want to get out from underneath the blankets, as the Great Lakes begins the thaw. We look at it with dread and apprehension.

The auto industry is at nearly bankruptcy levels. Construction is practically nonexistent. And steel mills are operating at 60-percent

levels. All of these are our base industries. So we do not know whether the Great Lakes fleet is going to move or not. We expect the Great Lakes fleet to operate at approximately the 60-percent level this spring.

As a result of those great mines of Minnesota and the thousand-footers and the docks and the workers, there is going to be a very silent spring. At least it is going to be muted.

To overcome this, the Great Lakes Task Force has put together a list of 1982 legislative priorities which we think are necessary to revitalize Great Lakes shipping to put those ships and the shipyards and the system back to work.

And on the top of that list—and we will be happy to furnish a copy, called "The State of the Lakes," to the committee for introduction in the record—at the top of the list it calls for elimination of the construction debt of the St. Lawrence Seaway. And while your bill does not go toward the elimination, it certainly puts a substantial bandaid on it.

The Great Lakes Task Force supports Senate bill 422. We believe that it is reachable, that it will give us enough time to march toward our real goal, which is the elimination of the debt.

We are also looking for a special appropriation for some extraordinary maintenance on the Eisenhower lock, which I believe Dave Oberlin has attested to. But the Great Lakes Task Force and all of its member associates are here today to support your bill, and we think it is a first step toward revitalizing the shipping and the economy of the Great Lakes region.

I would be happy to answer any questions. I think most of the ground has been ably covered by my colleagues.

[The information referred to follows:]

The State of the Lakes

The Great Lakes Task Force establishes 1982 legislative priorities for the Great Lakes Region

The crippling effects of legislative inactivity and indifference have created problems of immense magnitude for the maritime industry and trades of mid-continent America.

Federal discrimination to the Great Lakes region has taken many forms — the combination of which has created unparalleled inequity in the treatment of the maritime industry of this nation's Fourth Seacoast. While specific bills have tended to help the maritime industry as a whole, the interpretation of those bills usually goes contrary to the best interests of the Great Lakes.

This accumulation of neglect, indifference and inactivity have dealt stifling blows to the economy of the region, already hit harder by industrial slowdowns and recession than any other part of the nation. Labor, ports and industry suffer as a result. Combined with current economic conditions, areas of both overt and subtle discrimination place the future of the region's vast maritime industry in substantial jeopardy.

Speaking to these issues, the Great Lakes Task Force has established critical priorities to which the nation's legislative leadership must address itself if full self-sufficiency is to return to the nation's most productive, yet hardest hit states and industries.

The Great Lakes Task Force, spokesman organization for the Great Lakes maritime industry, is a coalition of widely diverse organizations within the region. Long a champion for regional issues, it has functioned as a cooperative voice of labor, port, industrial and state government interests.

Membership in the Task Force (GLTF) includes the states of Wisconsin, Minnesota, Illinois, Indiana, Ohio, New York, Pennsylvania and Michigan, each functioning through the Congressionally authorized compact organization, the Great Lakes Commission. Other members are: the American Maritime Officers Service; Council of the Lake Erie Ports; Great Lakes Association of Stevedores; International Longshoremen's Association AFL-CIO (Great Lakes District); Lake Erie Coal & Ore Dock Council; Marine Engineers Beneficial Association (MEBA - Great Lakes District); the Transportation Institute; and the U.S. Great Lakes Shipping Association.*

These midwestern states and organizations, united as the Great Lakes Task Force, accept the obligation of calling for the specific commitments of their elected Congressional leaders to provide the actions necessary to restore the region to economic health.

THE GREAT LAKES/SEAWAY REGION

The Great Lakes region is geographically the North Central section of the United States, in combination with significant portions of two eastern states. Its economic sphere embraces a hinterland which extends west through Montana, south to Arkansas, east to West Virginia, and north through several Canadian provinces.

The full U.S. basin area comprises over 300,000 sq. mi. and provides for the movement of over 100 billion tonmiles of waterborne freight each year. It contains a commercial water surface area of over 95,000 sq. mi., of which about 61,000 sq. mi. are within U.S. boundaries.

Over two dozen commercial harbors serve the region, including some of the largest ports in the nation. Two of the five largest cities in the United States — Chicago and Detroit — are Great Lakes port cities. Physically, the distance from Duluth, Minn. at the western end of Lake Superior, to the Atlantic Ocean is 2,340 miles. All the ports on Lake Erie and east in the Great Lakes/Seaway System are closer to North Europe than any other U.S. ports.

Although the Great Lakes region comprises only about four percent of the total U.S. land area, it contains well over 14 percent of the nation's total population and provides over one-sixth of the nation's wealth. To state it dif-

*Four business members — private firms rather than organizations — which support the Great Lakes Task Force are: American Steamship Company, Canonie Transportation, *Seaway Review*, and Meehan Seaway Service.

Priority: American-flag service.

ferently, the Great Lakes region provides nearly 17 percent of our Gross National Product and, thereby, at the least, that percentage of Federal taxes paid each year into our nation's Treasury.

Water transportation in the Great Lakes moves in two spheres: (1) the inter-lake movement of national resources, energy and raw materials from sources in the Upper Lakes to industrial complexes such as Detroit, Buffalo, Cleveland and Chicago, and (2) the movement of cargoes in international trade.

The St. Lawrence Seaway is a critical part of the Great Lakes transportation picture, permitting ocean vessels to move between the ports of the world and the inland U.S. and Canadian Great Lakes ports. On an average, more than 5,000 ship transits are made each year through the locks of the Seaway, moving some 50,000,000 metric tons of cargo in international trade — primarily grains, ores, coal, metals and energy products.

Cargo through the Seaway is the production of mid-continent America, moving to the free markets of the world — the products of factories and farms, of American labor and American commercial enterprise.

AMERICAN-FLAG SERVICE

Ironically, one of the first steps which must be taken to restore economic health to this vast region of America is nothing more complex than the return of scheduled American-flag overseas vessel service to the Great Lakes.

Currently, of the 834 U.S.-flag sailings each fiscal year from American coasts, less than one half of one percent — only eight sailings — originated from the combined ports of the Great Lakes. And these eight sailings were made by just one steamship company.

The Great Lakes/St. Lawrence Seaway navigation system is strategically located in the center of the industrial and agricultural heartland of the United States. The Great Lakes/St. Lawrence Seaway provides this vital economic region with convenient, efficient access to both domestic and world markets. The Federal government should seize upon the advantages offered by the Lakes and the Seaway by promoting a strong U.S.-flag Great Lakes fleet for world trade.

The problems that confront the U.S.-flag Great Lakes carrier industry are as unique as the navigation system itself. The Federal government must implement an innovative approach to the obstacles that impede the full development of this service. In the past, the government has promoted certain initiatives designed to facilitate a U.S.-flag world trade presence on the Lakes.

In 1970, *Section 809 of the Merchant Marine Act, 1936*, recognized the Great Lakes as the official Fourth United States Seacoast, and required federal subsidy contracts to "equitably serve" the foreign trade requirements of each seacoast.

In 1975, Great Lakes interests succeeded in amending *Section 809* again to more directly support the foreign trade needs of the Great Lakes by requiring that not less than ten percent of the funds for construction and operating subsidy be "allocated to each such port range," including the Great Lakes.

However, the government's role in the revitalization of the U.S.-flag Great Lakes service is by no means over. The legislative efforts of the 1970's, significant in and of themselves, are simply not enough. The government must continue in its efforts to renew the U.S.-flag service. For example, the government should acknowledge and support the movement of coal through the substantial, in-place coal handling facilities of the Great Lakes. Unquestionably, such action would be in the best interest of the nation.

The potential of a strong, viable U.S.-flag Great Lakes service must be enthusiastically nurtured by both the public and private sectors. The private sector has already expressed its commitment to the Great Lakes maritime industry by the creation of the Great Lakes Cargo Marketing Corporation. The government must now match this effort through the expeditious implementation of a program specifically tailored to the needs of the U.S.-flag Great Lakes service. Through such coordinated efforts between the public and private sectors, an active U.S.-flag service can become a reality in the Great Lakes.

PREFERENCE CARGOES

The *Merchant Marine Act of 1936*, as amended, accorded to the Great Lakes the official designation as the Fourth Seacoast of the United States. As such, the Great Lakes/St. Lawrence Seaway navigation system was entitled to accrue the benefits of preference cargo shipments. Unfortunately, to the detriment of the nation, the Great

Lakes have not participated in the preference cargo trade to the same degree as its tidewater counterparts. Indeed, only a comparatively insignificant amount of preference cargo has moved through the Great Lakes ports since the inception of the cargo preference program.

With the exception of the Department of Agriculture, the government agencies have proved to be unwilling partners to the stated intent of the cargo preference program. Congress clearly directed the participating federal agencies to equally distribute preference cargoes among the four designated seacoasts. To date, the Departments of State, Defense and Commerce have ignored the will of the Congress. The resulting loss of cargo movements through the region only serves to further frustrate the development of the Great Lakes ports and American-flag carrier industries.

In 1980, in order to assure the kind of equitable service and treatment as provided in *Section 809 of the Merchant Marine Act*, the Secretary of Commerce called for rules which would require federal agencies to ship at least ten percent of their government cargoes through the Great Lakes ports. Specifically, the proposed rule directs that each federal agency dealing with preference cargo "shall develop regulations to make a proportional allocation to each of the four seacoasts." In addition, the rule provides that each agency or department shall endeavor to move "no less than ten percent of its cargo through each seacoast..."

Despite the fact that this proposal was eventually withdrawn, the Maritime Administration expressed its intent to seek a voluntary allocation of preference cargoes among the four seacoasts. Congress should emphatically insist on federal agency adherence to its stated intent, namely to route a fair and reasonable amount of such cargo to each of the four seacoasts. The enforcement of the stated intent of Congress, either through the legislative or regulatory arenas, would significantly benefit the Great Lakes economic region and initiate the restoration of the U.S.-flag Great Lakes vessel fleet for world trade.

EQUAL USER CHARGES/SEAWAY DEBT ELIMINATION

The Great Lakes Task Force is in support of the Reagan Administration's national economic recovery program, but, in concert with the judgments of the Midwest Governors Conference, feels that equitable consideration must be given to the Great Lakes/St. Lawrence Seaway navigation system in order to provide equal distribution of user charges.

Traditionally, the dredging and maintenance of navigable waterways in the United States has been performed and paid for through the Federal government. The Reagan Administration proposes to change the existing system to one of cost recovery for these services, by charging the users of the navigable waterway system.

As the Task Force has noted upon repeated occasions, no other transportation route has been burdened with a repayment requirement, nor has any performed so efficiently, at no cost to the taxpayers. Users of the St. Lawrence Seaway have, in fact, been paying "user charges" — to the tune of $664 million, since the Seaway was opened in 1959.

In the annual budget to the Department of Transportation, when other Federal agencies show needs for billions of dollars for their operation, the St. Lawrence Seaway Development Corporation carries a zero after its name. It

Priority: Elimination of Seaway debt as part of user charge equity.

Priority: A reasonable share of Federal preference cargoes.

needs no tax money to operate. Still, amazingly enough, the Seaway must repay a balance of $110 million on the cost of its construction.

In addition to retiring a portion of the capital construction costs of the Seaway, tolls are a burden to basic Great Lakes industry, as well as the maritime community. Users of the Seaway, unlike users of other Federally-constructed waterways, must also pay all operating and maintenance costs.

Dealing with user charges at their 1981 meeting, the Great Lakes Governors Conference told the Reagan Administration that they expected:

- Development of a single national system for uniformly applied and Federally-administered user fees for deep-water navigation, including the Lakes.
- The application of a user fee system structured to provide equity between American and Canadian interests in the use of the bi-national Lakes system — while not disrupting existing competitive relationships among all U.S. ports.
- Elimination of the construction debt of the St. Lawrence Seaway, with the Seaway Corporation's operating expenses included in "expenditures paid for from the national user fee fund, before the imposition of the fee system."
- A special appropriation to care for the "extraordinary maintenance" now required on the Eisenhower Lock.
- A second large modern lock equivalent to the Poe, at Sault Ste. Marie, Michigan.
- Amendment of the U.S. Shipping Act to provide for the Great Lakes participation in the shipment of "preference cargoes," consistent with economic (geographic) advantages, fuel conservation objectives, and the need to utilize public and private investments for the benefit of an improved regional and national economy.

Agreeing with each of the points, the Great Lakes Task Force maintains that it is essential to the Great Lakes that at least these elements be incorporated into enabling legislation:

- If a user charge for cost recovery is made, it should be made by a uniform, Federally-collected charge that would not distort existing cargo flows.
- The Federal system of maintenance and operations should be continued to assure this work is not subjected to the whims of state or local governments.
- The construction debt of the St. Lawrence Seaway should be eliminated, thereby treating the Seaway system as an equal in the Federal navigation plan with no future requirement for recovery of construction costs. Operation and maintenance would be a part of a national cost recovery system.

These elements are not in disagreement with the Administration's position. The Office of Management and Budget recommends, in fact, that the shallow draft U.S. river system should have its fees collected by the Federal government and, in turn, it should be maintained by the Federal government, with no prior construction costs for the system charged to users.

AN END TO DISCRIMINATORY RAIL RATES

Inland freight rates established by the railroads have traditionally favored saltwater coastal ports. Since establishment of rail export freight rates, Great Lakes ports have been unfairly treated. Even when it has been shown that tidewater freight rates may not be compensatory to the operating railroads, they have been retained in full effect. Cargoes which originate within a few hundred miles of Great Lakes ports can move at a lower cost to the Gulf of Mexico than they do to the Great Lakes, even though the rail mileage may be longer by several hundred percent.

The Great Lakes Task Force maintains freight rates should be based upon the mileage rather than prices which often do not even recover the cost of the equipment used to provide that rail service.

EQUAL BURDEN UNDER TRIGGER PRICE MECHANISM

Legislation to resolve the economic inequity of the trigger price mechanism (TPM) on the Great Lakes is another Great Lakes Task Force legislative requirement.

The Task Force recognizes that TPM was suspended in January. However, the impacts of past TPM action were so severe that the Task Force is compelled to reiterate its concern for fear that a new system, equally detrimental to the Great Lakes, may be constructed.

The initial implementation of TPM, intended to reduce the import of foreign steel products into the United States, used a transportation cost factor from Japan to calculate the mechanism. Under TPM a rate was assigned to each of the coastal ranges, based upon the Japanese cost of production (including overhead and profit margin) as well as shipping, insurance and handling costs to each of the port ranges. However, the trigger price system cost the Great Lakes/St. Lawrence Seaway region an unbelievably disproportionate amount of tonnage, and businesses on the Great Lakes have lost millions of dollars as a result. No offsetting benefits to the regional steel industry were ever displayed.

During the period 1977 (pre-TPM base) to 1980, the last year of full statistics, U.S. steel imports decreased by 19.7 percent. During this same period Great Lakes steel imports via the Seaway decreased by 78 percent. In fact, the figures show that ports on all other coastal ranges received a net increase of 87,813 tons of steel imports. During the same period, the Great Lakes decreased by 3,903,261 tons.

These figures represent an unconscionable diversion of traffic. Neither government agencies nor steel industry officials have presented evidence that this diversion had an offsetting benefit for steel industry facilities based in the Great Lakes or a net benefit for the region.

While TPM has been suspended, the competition that the steel industry faces from foreign producers still remains.

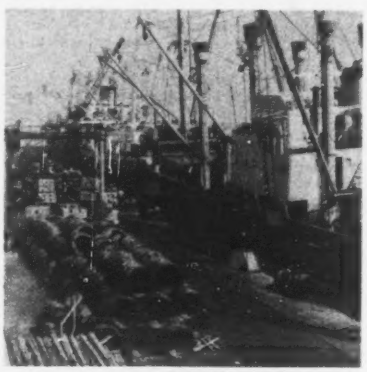
To correct this steel industry inequity, as well as the Great Lakes maritime industry inequity, the Task Force suggests three solutions:

- The Great Lakes Task Force asks the Administration and Congress to immediately develop a sound total program of tax incentives, reduced regulatory burdens and other nonsubsidy aids for the steel industry so that it can regain its ability to supply domestic demand.
- The Great Lakes Task Force believes the TPM system, if reinstated, should be changed to provide for a simpler pricing mechanism, including only Japanese FOB and ocean freight from origin of the steel.
- With respect to foreign steel producers, the U.S. industry appears to be able to produce only about 85 percent of our domestic steel needs. The remaining 15 percent should be purchased at the cheapest price available.

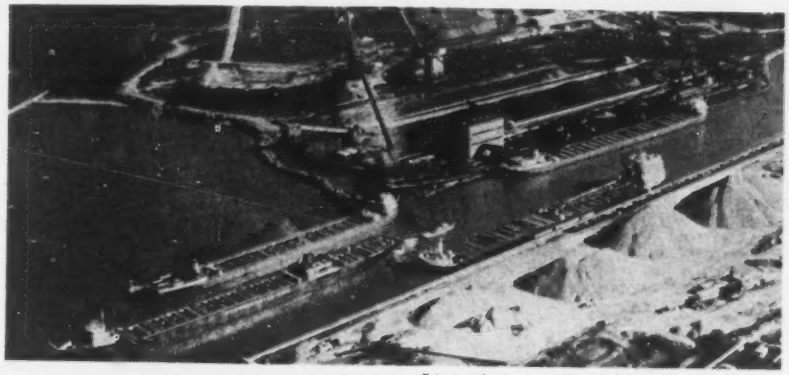
To accomplish this the anti-dumping restrictions of *Part 2 Article 6 of the General Agreement on Trade and Tariffs* and other applicable trade treaties dealing with dumping could be waived as to the purchase of that amount of steel which cannot be supplied by U.S. domestic production. In exchange for such a concession, the foreign steel producing countries would be required to accept quotas on the amount of steel they could ship to the U.S.

Because the anti-dumping waiver serves as a *quid pro quo* for quotas, such arrangements could be reasonably negotiated within the framework of present treaty relations between the U.S. and foreign steel producing nations and could be adjusted periodically upwards or downwards through orderly marketing agreements.

This latter procedure, if implemented, would provide for the import steel at the cheapest prices available. It would be an anti-inflationary procedure as opposed to the trigger price mechanism which provides artificial supports to the price of imported steel.



Priority: Equity in trigger rates.



Priority: Support for Great Lakes export coal movement.

UPGRADE OF SOO LOCKS

Major cargo movements on the Lakes today are utilizing, increasingly, the 1,000-ft. supercarrier — the new fuel efficient and low-cost state-of-the-art vessels — for moving the natural resources of mid-continent mines.

These resources, primarily iron ore and coal, move from the upper reaches of Lake Superior to the industrial complexes and utilities on the lower Lakes. They make possible the continuing industrial might of the nation.

Today only one of the four locks at Sault Ste. Marie is capable of transitting the 1,000-ft. ore boats from the Lake Superior mines to the lower Lakes industrial centers.

The only large, modern lock in that system, the Poe, opened in 1969 at a cost of $40 million, paved the way for the technology of the 1,000-ft. carrier.

With fuel costs, fuel shortages and general inflationary spirals impacting upon the movement of bulk cargoes, virtually every Great Lakes operator has moved toward "jumboizing" old vessels and ordering new construction in the 1,000-ft. size, capable of carrying over 80,000 tons of bulk cargo per load, compared to 15,000 tons for the many older vessels.

A serious accident, a terrorist-type sabotage of the Poe Lock or a simple mechanical failure would have critical implications for the nation, its steel industry and the movement of coal to the electric utilities which border the Lakes.

As the Lake Carriers' Association has pointed out, the fact that only one lock can accept large Great Lakes vessels is an Achilles heel to the nation. If a failure should occur in a period of international stress, defense production would be disastrously reduced. If a failure would occur in normal times, utilities and the steel industry would be forced to operate at a snail's pace.

The Task Force urges the funding for a second 1,000-ft. or larger lock at the Soo.

The economic and military implications in expanding the St. Lawrence River locks of the Seaway, as well, should be considered. Despite substantial cost, the sooner formal, bi-national conversations begin, the more adequately, effectively and efficiently the U.S. can evaluate its alternatives.

In this context, it is important to note that the Task Force believes navigation projects such as the proposed new lock, should be exempt from the block grant philosophy advanced in the *National Water Resources Policy and Development Act of 1980* and the cost recovery system in the *National Harbors Improvement and Maintenance Act of 1981*. National defense is not a recoverable cost in the programs of any U.S. administration.

While the Task Force concurs with these Acts' philosophy in general, it notes that projects which affect and involve interstate commerce in which a state has little or no interest, should not be a part of such block grant or state-initiated cost recovery.

EQUAL PROMOTION OF EXPORT COAL CAPABILITIES

Last year, every Federal agency or task force dealing with the movement of U.S. export coal ignored the immense coal movement capabilities of the Great Lakes corridor.

Strong action on the part of several organizations and private businesses within the Task Force altered this lack of information, and the year saw substantial improvement in the world image of the Great Lakes/Seaway capability for the movement of export coal.

The facts that (1) the largest single movement of coal ever to leave the North American continent took place through the Seaway, using traditional transshipment techniques and self-unloading carriers, along with (2) a joint Great Lakes-Common Market Coal Commission meeting in Washington (sponsored by two Task Force members) and (3) the initiation of an American Association of Railroads supplemental report on Great Lakes export coal potential, speak well to this region's immense and ongoing efforts on behalf of the system.

However, the Federal government has only begun to catch up with the rest of the world in its recognition and acknowledgement of the Great Lakes coal potential.

The Great Lakes Task Force, therefore, requests that legislators from the Great Lakes make themselves aware of the business and the jobs their districts are losing — mining, processing, handling and shipping — due to this indifference or the reluctance to produce accurate information at several Federal bureaucratic levels, and take steps to plug this ignorance gap.

PUTTING IT ALL TOGETHER

The Great Lakes does not seek undue redress for the decades of inequity it has faced. This resiliant Great Lakes maritime system has fought adverse conditions since the Seaway was opened under the stifling restrictions that made it the only waterway in American history required by law to charge tolls to its users.

Not until 1970 — due largely to Task Force efforts — did the Seaway System obtain full Seacoast status, permitting long overdue construction and operational subsidies for Great Lakes carriers, carriers which, incidentally, constitute some 25 percent of the total U.S. merchant marine fleet under sail.

Discriminatory rail rates to Great Lakes ports, an economically valuable and environmentally safe season extension program, the diversion of Great Lakes cargoes to Eastern, Gulf and Canadian tidewater ports — these are matters which have been fought in the past and are still being fought.

Today, the Great Lakes region is attempting to put in place a cooperative marketing corporation to permit the region to speak with one commercial voice in support of its superior cost-and-energy-saving routes to the world.

In the spirit of the Reagan economic programs, the Great Lakes Task Force seeks no more than the opportunity to work — to do what it does best — without the interference of cumbersome, unfair or biased legislation and a negative bureaucratic interpretation.

Said another way, the Great Lakes/Seaway System wants only the same opportunities as the other coastal ranges to work and to pay its people, to continue to contribute its lion's share of the Gross National Product. No more than that and no less.

In the 1981 legislative priorities paper published by the Task Force, the group admonished, "During the election campaign just completed, many Great Lakes Congressional candidates did speak out for equality for the region,

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Priority: Expansion at the Soo locks

for economic recovery, for jobs, for maritime benefits. They promised us legislation that would cure the ills of the region.

"Many of these candidates, based upon their promises, were elected."

The requirements: (1) American-flag service for the Lakes, (2) equally shared Federal user charges on which the Great Lakes' 23-year-old user charges, Seaway tolls, are eliminated as new charges are introduced, (3) a reasonable percentage of Federal preference cargoes, (4) equity of rail rates to Great Lakes ports, (5) equal sharing of the burden of the Federal trigger price mechanism, (6) an economically important new lock at Sault Ste. Marie, and (7) Federal recognition of the Great Lakes corridor's export coal capacity.

Not too much to ask for: Equity in application of law. Facilities to ensure our national defense and our nation's productive capacity. Recognition of our existing capability.

The Great Lakes Congressional delegation today consists of 157 Representatives and 16 Senators. Fifty-five of the Representatives have districts which physically border the Lakes. Based upon the accomplishments of other regions of the nation, we have the numbers to change the Great Lakes situation. The only question is — do we have the will?

As the nation looks to another Congressional election this November, *the Great Lakes is still waiting for those election promises to be kept* — watching and hoping that the support they see generated by other regions, by other coalitions of legislators, will happen here — that our Great Lakes Representatives and Senators will act and move and fight for their constituency as they promised they would do. □

The Great Lakes Task Force

Members: *Marine Engineers Beneficial Assn.; Great Lakes Assn. of Stevedores; Transportation Institute; Council of Lake Erie Ports; Great Lakes Commission; American Maritime Officers Service; U.S. Great Lakes Shipping Assn.; Chicago Maritime Council; Lake Erie Coal & Ore Dock Council; International Longshoremen's Assn., AFL-CIO.*

Business members: *Canonie Transportation, Inc.; American Steamship Company; The Seaway Review; Meehan Seaway Service, Limited.*

Senator GLENN. Thank you very much. I know personally of your interest. We have known each other for many years, and I have known personally of your interest in all the things on the Great Lakes. I do not think they could have had a better chairman of this task force than you. You have been familiar with all the problems for many years.

I think we will go ahead and have the other testimony. Mr. Schneider as director of development, the Toledo-Lucas County Port Authority of Toledo. He is appearing on behalf of Gary Failor, who is chairman of the U.S. section of the International Association of Great Lakes Ports. I understand he was ill today and was not able to be here.

So we are glad to have you substitute for him, Mr. Schneider.

STATEMENT OF GENE SCHNEIDER, DIRECTOR OF DEVELOPMENT, TOLEDO-LUCAS COUNTY PORT AUTHORITY, ON BEHALF OF GARY L. FAILOR, CHAIRMAN, INTERNATIONAL ASSOCIATION OF GREAT LAKES PORTS, TOLEDO, OHIO

Mr. SCHNEIDER. Thank you, Mr. Chairman. Because of a sudden illness he cannot be here, as you pointed out. Gary Failor is seaport director at the Port of Toledo and also the U.S. chairman of the U.S. Section of the International Association of Great Lakes Ports. I appreciate, on his behalf, the opportunity to express the views of the Great Lakes particularly about Senate bill 422.

Mr. Chairman, for the sake of time, I would like to submit verbally to the committee a brief summary of our formal, more detailed testimony already submitted to you.

Senator GLENN. I would add that all of your testimonies will be included in the record.

Mr. SCHNEIDER. Some of what we have to say will obviously be repetitious, but we feel, particularly in Toledo and also the entire Great Lakes region, that the magnitude of importance is such that it merits all of our attention.

The intent of this bill is to restructure or spread out the payments of principal made by the St. Lawrence Seaway Development Corporation to the Federal coffers for the construction of the U.S. portion of the Seaway. Construction debt payments are $2 million annually, as we pointed out, but in 1986 the principal payments accelerate to $9.5 million per year.

This balloon effect will increase the existing Great Lakes user charges to an intolerable level. Tolls would have to be drastically increased. And it is easy to see how the Great Lakes' ability to compete with other seacoasts would be dramatically and unfairly lessened.

The Seaway Development Corporation's principal debt payments paid from tolls collected by that agency have been user charges in the strictest sense of the word. But since Senator Glenn introduced Senate bill 422, a wide array of user charge programs for the national waterways have been proposed. Could it be that after more than 20 years the other coasts will be treated in much the same manner the Great Lakes have been?

For example, consider any cargo which could competitively go to the gulf, the east, or the lake coast. The lakes have had an immediate liability and thus less chance of attracting that cargo by adding $1.10 for bulk commodities and $2.41 for general cargoes. For each ton of cargo handled, those additional discriminatory charges have to repay the Seaway construction debt as well as help finance the Seaway Development Corporation's operating and maintenance programs.

While the Senator's bill will help preserve the Great Lakes trade routes, a new and potentially better alternative has emerged since Senate bill 422 was first introduced. As you are aware, full Federal cost recovery in the user charge concept for the Nation's navigable waterways has been proposed by the administration.

Even though the lakes have paid discriminatory user charges for nearly a quarter of a century, if applied equitably nationwide, the general concept of cost recovery and user fees has the full support of the Great Lakes.

May I remind you that the entire country is already participating in a similar program as to what we advocate. We all pay the same Federal gasoline tax to support our Interstate Highway System. The Nation's waterways, if considered as one national transportation system network, should have the same consideration to the benefit of the entire country. Then an equitable user charge policy would go further in creating a strong competitive environment for all port ranges.

It is imperative that the lakes' domestic and international trade routes be protected from a discriminatory user charge policy. By forgiving the St. Lawrence Seaway construction debt, by the assumption of the Federal Government of all operating and maintenance costs, and by not assessing user fees on the lakes' connecting channels, we are in a positive posture to compromise on other aspects of the issue.

Several user charge alternatives have emerged, including the status quo, what we are living with now. But the status quo has put the lakes at a disadvantage to other port ranges for more than 20 years, as we have testified today. Let me emphasize again that the status quo will also burden the Seaway with a $9.5 million annual payment in 1986, and we just cannot let that happen.

If, however, the status quo is continued, it is imperative that Senate bill 422 be enacted. Presuming the status quo remains in place and the balloon debt payments for the Seaway go into effect in 1986, you will effectively eliminate the Great Lakes as a port seacoast.

Thank you for the opportunity to share our views with you this morning. And I think an even deeper thank you has to be offered for your efforts in trying to help us wrestle with some of the economic trials of the Great Lakes region. We appreciate the opportunity.

[Mr. Failor's prepared statement follows:]

PREPARED STATEMENT OF GARY L. FAILOR

Good Morning. My name is Gary Failor, and, as seaport director at the Port of Toledo and as chairman of the U.S. Section of the International Association of Great Lakes Ports, I appreciate the opportunity to express the views of the Great Lakes ports regarding Senate Bill 422.

Without question, the insight behind S. 422 is the kind of positive attention necessary from our elected officials to preserve the maritime industry on the

Great Lakes. This region has been officially recognized as the nation's Fourth Seacoast and an equal maritime partner by you and your congressional colleagues. It is, therefore, our joint responsibility to put the St. Lawrence Seaway-Great Lakes transportation system in an equal posture with the West, Gulf and East Coasts.

The intent of S. 422 is to restructure, or spread out, the payments of principal made by the St. Lawrence Seaway Development Corporation to federal coffers for the construction of the U.S. portion of the Seaway.

The charges, paid from tolls collected by the St. Lawrence Seaway Development Corporation, have been user charges in the strictest sense of the word, and since the Senator from Ohio introduced S. 422, a wide array of user charge programs for waterways have been proposed. Could it be that after more than 20 years, the other coasts will be treated in the same manner the Great Lakes have been?

For example, consider any cargo which could competitively go to the Gulf, East or Lakes' coasts. The Lakes have had an immediate liability . . . and thus less chance of attracting that cargo . . . by adding from $1.10 (bulk) to $2.41 (general cargo) for each ton of cargo handled. Those additional charges have to repay the Seaway construction debt, as well as finance the Seaway Development Corporation's operating and maintenance programs.

Construction debt payments are $2 million annually, but in 1986, the principal payments accelerate to $9.5 million per year. This balloon effect will increase the existing Great Lakes' user charges to an intolerable level. Tolls would have to be drastically increased, and it's easy to see how the Great Lakes' ability to compete with other seacoasts would be dramatically and unfairly lessened.

Although not eliminating the present liability, S. 422 attempts to keep construction debt payments at their present level by extending them over an additional 30 years. We applaud the Senator's insight for sponsoring the bill, and let me emphasize that if the status quo regarding user charges on the Lakes remains, enactment of S. 422 is a must or the existence of our Great Lakes ports will be of no consequence in the national economic structure.

While the Senator's bill will help preserve the Great Lakes trade routes, a new, and potentially better alternative has emerged, since S. 422 was first introduced.

As you are aware, full Federal cost recovery and the user charge concept for the nation's navigable waterways has been proposed by the Administration. Even though the Lakes have paid discriminatory user charges for nearly a quarter century, if applied equitably nationwide, the general concept of cost recovery and user fees on our waterways has the full support of Great Lakes ports. User charges could provide the vehicle necessary for the Great Lakes to finally become an equal partner with other seacoasts. We could then more equitably compete for cargo movements and increase employment in a very distressed area of the country.

May I remind you the whole country is already participating in a program similar to what we advocate for any user charge policy. We all pay the same Federal gasoline tax, whether in Colorado, California or Ohio, to support our interstate highway system. If you consider the nation's navigable waterways as one transportation network which benefits the entire country, much like the interstate highway system, then an equitable user charge policy would go further in creating a strong, competitive environment for all port ranges. A user fee structure, administered and collected by the Federal Government and including costs of operating and maintaining all Federal navigation projects, would be highly desirable. Obviously, this would also include all Great Lakes connecting channels.

We realize definite differences exist on how a user-fee program should be implemented. We also know both sides of the user charge issue must have certain guarantees before a unified maritime response to the user charge proposals can be accepted. However, we also believe we all can reach an amiable compromise.

For instance, it is imperative that the Lake's domestic and international trade routes be protected from a discriminatory user charge policy. By forgiving the St. Lawrence Seaway construction debt, by the assumption of the Federal Government of all operating and maintenance costs, and by not assessing user fees on the Lakes' connector channels, we are in a positive posture to compromise on other aspects of the issue.

We're not looking for an advantage. What we seek is a more equitable footing with the rest of the nation's port ranges, and merely restructuring the Seaway debt will not give us that equality. However, don't let me lessen the importance of S. 422, if the present operating procedures we have remain intact.

We're convinced a just user charge program can be adopted which will equally serve the nation's seaports. For the Lakes, the primary requirement for equality under any of the proposed user fee plans is that there be Federal control in maintaining and fully funding the costs of maintenance and operations in the connecting channels of the Great Lakes.

Putting the user fee concept in perspective, four alternatives have been debated during the past year. Permit me to briefly identify them:

1. *Status Quo.*—For the Great Lakes, we would continue to be burdened with the Seaway user charges . . . tolls. For the ports, there will be an unavoidable reduction in harbor dredging nationwide, in addition to no new or deepening projects being approved. Status quo would also devastate the Lakes' future with the $9.5 million annual construction debt payment in 1986. We simply cannot accept that escalation.

2. *Full Cost Recovery—Port Specific.*—This is the original Administration proposal, and, for the Seaway, we would have a double dose of user charges both for the Seaway and each specific port. On the other coasts, load center ports will emerge and the economic development and employment at the majority of tidewater ports will slowly be eliminated.

3. *Full Cost Recovery—Uniform Charges.*—This presumes that the Seaway costs will be folded into a nationwide expense pool and that the Seaway debt will be eliminated. A ton of a certain commodity in Toledo would pay the same charge as a ton of the same commodity in New York, Long Beach or New Orleans. The West, Gulf and East Coast ports fear that with their high volumes, they would be subsidizing the operating and maintenance costs of the smaller ports.

4. *Combination Uniform and Port Specific Cost Recovery.*—While no bill has been introduced in either house of Congress to provide for this alternative, it does have several benefits. A uniform fee at a specific, per ton level could be collected and used to form a construction fund for new projects, as well as cover a certain percentage of the operations and maintenance of existing channels. In addition to this uniform fee, a port specific charge, with some upper limit, could be made based on the relative cost of operation and maintenance in each port. This approach also presumes the operating and maintenance costs of the Seaway will be included in the Federal expense pool and that the Seaway construction debt be forgiven.

To date, of the four alternatives, we've been forced to live with the status quo. As I pointed out earlier, the status quo has put the Lakes at a disadvantage to other port ranges for more than 20 years. Let me emphasize again that the status quo will also burden the Seaway with a $9.5 million annual payment in 4 years, and we just can't let that happen.

We, in the Great Lakes, cannot support the status quo forever, and the only other politically acceptable alternative may be the combination approach. This allows for a construction fund which the larger ports must have, and it also allows for a low differential on port specific costs which will avoid load centering, and thus, avoid economic displacement.

The combination approach, of course, must have the Seaway debt and O & M tolls eliminated to be acceptable to the Great Lakes. In addition to all these points, our recommendation provides the Administration a vehicle to recover the costs of maintenance and operations.

If the status quo is continued, it is imperative that S. 422 is passed by both houses. Presuming the status quo remains in place, and the balloon debt payments for the Seaway go into effect in 1986, you will effectively eliminate the Great Lakes as the Fourth Seacoast.

Senator GLENN. Thank you, Gene.

The next witness is Mr. David G. Abraham, Indiana Port Commission of the Port of Indiana/Burns Waterway Harbor, Portage, Ind.

Mr. Abraham, before you make your statement, I would like to acknowledge the presence in the room of another person who is extremely interested in this. While he is not officially listed as a wit-

ness today, he has a statement that will be included in the record. He is Tom Burke.

Tom, please come up to the table. Tom is director of the Port of Cleveland. In his testimony which was submitted to the committee, he suggests that Congress legislatively stop the toll increase as it will take effect for the coming season until we know the outcome of the user charges now under consideration for all ports.

I do not know how easy that would be, for several reasons: The attitude of OMB and the bilateral nature of the seaway. But the suggestion certainly will be noted seriously.

I would like to have Mr. Burke's statement on behalf of the Port of Cleveland and Cleveland interests entered in the record along with those of the other members of the panel.

We are glad to have you join us, Mr. Burke.

Mr. BURKE. Thank you.

Senator GLENN. Thank you.

Mr. Abraham, please proceed.

STATEMENT OF DAVID G. ABRAHAM, INDIANA PORT COMMISSION AT THE PORT OF INDIANA/BURNS WATERWAY HARBOR, PORTAGE, IND.

Mr. ABRAHAM. Thank you, Senator Glenn. I, like my colleague, do not have a prepared statement and will save you all of the agony of going over things that you have heard time and time again. I will limit my remarks to really just two observations, which although they too have been made, I do not think can be emphasized, reemphasized, and stressed too often.

I was particularly pleased to read in Chairman Percy's invitation to come and testify here today that he not only wishes to hear about your proposed bill S. 422, Senator Glenn, but on matters relating to the proposed user charges for the Federal waterays. Inevitably, it would appear that this committee has recognized the integrated and inextricable impacts which the St. Lawrence tolls as they now exist and as they may exist in the future have upon the various proposals for Federal user fees.

When I say "various proposals," I am mindful of the fact that even though we make a concerted effort to keep track of those various proposals, I am quite sure that even the computers of this Congress at this point have lost track of how many there really are and what they all say.

Perhaps those of us who have the Great Lakes interests at heart as a very important component of this Nation's socioeconomic health, should be pleased about this proliferation, because experience and history have shown us that when we have those kinds of proliferations, nothing comes to pass. And perhaps that is the motivation, Senator Glenn, for the doability component of your proposed legislation.

I find it particularly scathing to listen to Administrator Oberlin in not expressing the same urgency which we all feel to have a resolution to the inequity which, as was noted, has been going on since the seaway first opened, and to express a seeming comfort in that the

problem in its full impact will not rise until the year 1986, when the balloon of $9.5 million would first have to be reckoned with.

We have heard from his and his colleagues' testimony that toll increases of the order of 70 percent would then be required if sufficient revenues were to be raised in order to fund the debt repayment at the level of $9.5 million. I wish to register my disagreement with that projection.

As a practicing economist of over 25 years, I should like to propose for the consideration of this committee that an increase of 1 percentage point in the St. Lawrence Seaway toll level will have a comparable impact in decrease of traffic. And that, in turn, means a comparable decrease in revenue collections, since we are now almost at $1 per ton average of toll revenue for a full passage of the St. Lawrence Seaway system.

What I am then saying, Senator, is if we had to raise an additional $9.5 million in tolls, this would not only require us to raise those tolls by that sum but, in all likelihood, double that amount, since for each dollar of increased toll levels, we are bound to lose $1 of income from a reduction in tonnage transgressing the Seaway.

To make the numbers really simple for your and the committee's consideration, I should like to leave with you the thought that a $9.5 million increase in tolls may very well mean a 9-million-ton reduction, the impact of a 9-million-ton reduction in traffic. And a 9-million-ton reduction in traffic means, in terms of direct and indirect economic impacts for the Great Lakes region, calculated at a relatively modest average impact level of $150 per ton, this then means that we are approaching the trillion dollar level in adverse economic impacts to the Great Lakes.

That is the prospect we are facing. If indeed the inequities which the Great Lakes region has suffered since the opening of that system were to continue into the future

I did say at the beginning—and when I promised you to be brief—that I will address but one other point. I should like to place in perspective the meaning of the current level of Great Lakes tolls to the proposed user fees. And to get away from their variety, allow me to mention exclusively the cap proposal contained in the Abnor-Moynihan bill.

Reference there is made to a temporary maximum of 6.9 cents per ton; 6.9 cents per ton has been opposed as too high an introductory level of additional taxes, user fees, tolls, call them what you will, when we on the Great Lakes region for the use of the St. Lawrence Seaway are presently paying between 12 and 15 times per ton the level of new tolls or new user fees which are generally being criticized as being too high.

Need we really say more than that we are now already paying from 12 to 15 times that which some 55 different port directors are opposed to as a coming user fee?

I believe that the answers are so glaringly clear that any embellishment on my part would, if anything, reduce, if not totally eliminate, the impact of what I have just tried to say.

As always, we are pleased to answer questions. We in Indiana are somewhat more fortunate than our brother and sister ports on the

Great Lakes, in that our traffic volumes have not seen the precipitous declines, but rather some modest increase over the last few years.

That, though Senator, does not give us any umbrage or comfort in any way other than to say to you today, as we have said to various committees on both sides of this Capital Hill, unless both the Congress and the administration will soon come to recognize the fire we are playing with, the house of cards will indeed burn.

Thank you very much.

Senator GLENN. Thank you very much, Mr. Abraham.

Before we move on, Mr. Burke, do you have anything to add to the characterization of your statement? I hope it was accurate. I ought to give you time for a statement.

STATEMENT OF C. THOMAS BURKE, EXECUTIVE DIRECTOR, CLEVELAND PORT AUTHORITY, CLEVELAND, OHIO

Mr. BURKE. I just want to thank you for your acknowledgment that I was here. And I thank you for your interest in the lakes. I know you have long been an advocate in doing something for us, but I would bow to the financial expertise of the rest of the panel.

What I am really talking about goes to the real issue of what happens to the shippers, the importers, and the exporters, and what happens to the jobs on the Great Lakes that are going to be lost if we do not do something about this toll matter.

That is what I am really talking about: emergency legislation to forestall any further increases in the tolls. I do not know how you would do it either, but if we get the user charges on top of the tolls, we are not going to be doing much of a service for our industry in the Midwest and we are going to be experiencing much greater unemployment. That is what I am really concerned about. I am talking about jobs. That was basically the thrust of my throught to you, Senator.

[Mr. Burke's prepared statement follows:]

PREPARED STATEMENT OF C. THOMAS BURKE

Unfortunately, we on the Great Lakes are already thoroughly familiar with the concept of user charges. In fact, for almost a quarter of a century, our shippers have been the only users, of any federal waterway in the country, who have been expected to repay the construction and maintenance costs. In our case, the users fees have been called "tolls."

Although we have long lived with this discriminatory situation, it is becoming increasingly evident that the advent of a national cost recovery program may not rectify the problem, but may in fact worsen it if the Seaway users are expected to pay both existing tolls as well as newly levied user charges.

It would seem to those of us who depend upon the "Fourth Seacoast" for access to world markets, that immediate steps must be taken to avoid such a double burden. Action must be taken to equalize the costs borne by Great Lakes shippers with those of other navigable waterways in our country.

One temporary remedy for the existing travesty would be the introduction of emergency legislation to freeze any further escalation of the already discriminatory tolls on the Seaway, pending the outcome of the users charges now under consideration. While this step would admittedly be only a stop gap measure, it would go a long way toward buoying the confidence of potential shippers who have already borne the brunt of these long-existing "users charges."

If enacted soon enough, the freeze could coincide with the imminent opening of the Seaway in late March, signaling our shippers that Washington is aware of their unique plight and will be giving serious consideration to taking further

measures which will finally reflect the status of the Great Lakes as our nation's Fourth Seacoast.

In view of other increases during the past six years which have increased existing tolls some 159 percent on general cargo and 204 percent on vessels, a remedy of some kind is long over due, and a freeze on additional revenues would hardly cause any serious hardship on the continued operation or maintenance of the Seaway.

Should this or other measures suggested by Great Lakes interests not be adopted. we could well face the complete demise of international shipping through the St. Lawrence Seaway. An area, which it might be pointed out, has already suffered a disproportionate blow from the economic problems now plaguing our country.

Senator GLENN. Thank you very much.

I see that Vera Paktor is here. Vera is the executive director of the U.S. Great Lakes Shipping Association. She also submitted a statement, which we will include in the record in its entirety. We appreciate that. We appreciate your being here. Thank you very much.

[Ms. Paktor's prepared statement follows:]

PREPARED STATEMENT OF VERA PAKTOR, EXECUTIVE DIRECTOR, U.S. GREAT LAKES SHIPPING ASSOCIATION, CHICAGO, ILL.

Mr. Chairman, members of the Committee, I am pleased to have an opportunity to present the position of the United States Great Lakes Shipping Association on the subject of cost recovery as it pertains to the operation and maintenance of our nation's waterways and its anticipated impact on the Great Lakes.

The United States Great Lakes Shipping Association represents member vessel owners and operators whose ships serve the international Great Lakes trades. The Association was formed more than 20 years ago. It is incorporated in the state of Illinois and maintains an office at 332 S. Michigan Ave., Chicago, Illinois 60604. I serve as the Association's Executive Director and it is in that capacity that I submit this statement for your consideration.

The panelists who testified before you this morning provided carefully researched data concerning the probable negative impact on the Great Lakes maritime industry of new user charges. Several explained what impact a 75 percent recovery plan would have on ports, on labor, on midwestern agricultural product sales, on the nation's balance of payments. Several of the panelists have indicated that the imposition of a user charge on the Great Lakes would doubly disadvantage the Fourth Seacoast, unless the collection of tolls on the St. Lawrence is suspended and the user charge applied equitably on all of our country's waterways.

As you know, Great Lakes users have been heavily taxed for their utilization of the St. Lawrence Seaway, paying Seaway tolls since the system opened 23 years ago. It is a well-known fact that no other Federal waterway project has so burdened its users by requiring them to repay the cost of construction and on-going operation. We in the Great Lakes have paid $61 million in tolls while our coastal competitors have enjoyed tax-free sailing all these years.

It is also a well-known fact that tonnage carried via the Great Lakes-St. Lawrence Seaway system has declined steadily during the years since 1977, falling from more than 57 million tons in 1977 to 49 million tons in 1980. The 1981 shipping season saw a decline in the direct movement of many agricultural products and other bulk cargoes as well as in general cargo. Container tonnage dropped 61 percent, reflecting the total absence from the U.S. Great Lakes of a regularly scheduled container service. We anticipate an even worse 1982 Great Lakes shipping season as a result of a worsening economy both at home and abroad.

Last summer, in response to a proposal by the Seaway Development Corp. to increase tolls on the St. Lawrence Seaway, the association expressed fear that higher tolls, which initially paid by vessel owners and operators, but passed on to shippers—would result in decreased tonnage as ship owners and operators could avoid the increased tolls by avoiding the U.S. Great Lakes, docking their ships at Canadian deep water ports instead. Despite the expression of this and other fears by port districts and other providers of maritime services, tolls for 1982 have been increased by some 18 percent and will go up by another 10 percent in 1983. In addition, a new lockage charge is being assessed on the Welland Canal where Lakes Erie and Ontario are connected.

It also was suggested to the St. Lawrence Seaway Development Corp. that a moratorium be placed on proposed Seaway toll increases until the issue of the proposed user charge is settled. That is now a moot issue as we will begin paying higher Seaway tolls with the first ship's arrival next month.

Because the Great Lakes, as a port range, and those of us serving the Seaway trades, have for years been put into a difficult position, it is critical that new charges be levied in a way which will not cause further harm to the Great Lakes system and the maritime industry which serves it. In order to achieve that goal, the U.S. Great Lakes Shipping Association suggests that the following steps be taken:

The outstanding debt resulting from the construction of the St. Lawrence Seaway should be forgiven;

The definition of the Federal role in navigation should be formulated to include full responsibility for the provision and maintenance of navigation channels and major designated waterside port facilities;

A single, national system of uniformly applied, Federally-administered user fees should be developed.

If these goals are not achieved it is likely that the already seriously weakened U.S. Great Lakes Maritime Industry will suffer irreparable harm. Thousands of directly related and additional thousands of support service jobs already have been lost on the Great Lakes as a result of our inability to compete with the coastal industry. Ship owners and operators once committed to the international Great Lakes Trades have dropped out in increasing numbers since 1977. Facing higher operating costs, we fear that they will continue to do so in the years to come. If that happens, leaving an equally debilitated laker trade behind, the Great Lakes will most likely never recover its viability, becoming an expensive Federal liability.

We hope that each member of the Committee understands the seriousness of the problem being faced by Great Lakes users and that each member will act to prevent the certain further deterioration of our Nation's Fourth Seacoast.

Mr. HELBERG. Senator Glenn, I wonder if I might make a point. I did not see the formal invitation. I was notified by telephone. Frankly, I did not realize that user fees would be a part of this discussion.

By your leave, if I may, without getting into a discussion of user fees and with the policies of Mr. Briggs, if you would just pardon me for one moment, I do have with me several position papers and resolutions that have been adopted by a variety of public and private organizations in northern Minnesota in the past few months regarding user fees.

I would very much like to have them made a part of the record of this hearing, with any elaboration except to point out that they come from the Duluth City Council or St. Louis County Board of Commissioners, several other county boards in our region, the Iron Range Association of Municipalities, our Twin Ports Lodge of the Shipmasters Association, one of our ILA locals, as well as our local chapter of the U.S. Propeller Club.

And I wonder if I might submit those for the record.

Senator GLENN. We would be glad to have them submitted, and they will be included in the record.[1] We appreciate your bringing the documents with you. I am sorry if there was any confusion when the notice was sent out as to what was going to be included this morning.

Mr. HELBERG. Thank you, sir.

Senator GLENN. Thank you.

If anyone else would care to submit any additional statements, we would be happy to include them in the record.

Our next witness is Mr. Richard E. Briggs, executive vice president of the Association of American Railroads.

[1] See page 25.

Mr. Briggs, as a railroad man sitting there with the lineup to his right, has to be feeling like Daniel in the lion's den this morning. You are certainly not the least by being last in our lineup of witnesses this morning.

But in all seriousness, we do have major transportation problems, not only with waterways but with railroads as well. And we are trying to work out the best for our country. We do appreciate your being here. And we appreciate your testimony. If you would proceed, we would appreciate it.

STATEMENT OF RICHARD E. BRIGGS, EXECUTIVE VICE PRESIDENT, ASSOCIATION OF AMERICAN RAILROADS

Mr. BRIGGS. Thank you, Senator. I must say that it is not a unique experience to be appearing before various panels of the Congress on the question of waterway tolls and user fees.

On the other hand, it is a rather unique experience to be with a group where the majority of the group are complaining about the inequities of waterway systems that pay no user fees at all. That is a burden not unfamiliar to the railroad industry, one that we have faced for many years.

The simple fact of the matter is that outside of the St. Lawrence Seaway the Nation's inland waterway system has had about 30 percent of its operating costs directly subsidized by the Federal Government for years.

When you operate with that kind of handicap, it has the effect not only of driving down profit levels and of causing traffic losses, but it also inevitably means that methods of transportation will be selected that are less economical in terms of their total cost than there would if there were an adequate system of usage fees.

The members of the Association of American Railroads operate about 94 percent of the railroad mileage in the country and carry 98 percent of the freight traffic. We think we have a very legitimate interest in public policy dealing with the St. Lawrence Seaway. Many of the ships moving both import and export cargo through the Seaway offer a directly competitive service to the railroads. To the effect that the Federal Government subsidizes waterway transportation, railroads are at an obvious disadvantage.

When the Seaway was first built in the 1950's, it was argued that user charges would cover not only the costs of operation and maintenance but construction costs with interest as well. That argument, which served to convince the Congress to approve that project, has proved to be wrong.

In 1970 Congress granted a request of the St. Lawrence Seaway Development Corporation to forgive all future interest. Despite the benefit-cost ratios used at that time to justify the change, those benefits have proved again illusory, and the users have shown that they cannot cover the kind of repayment schedule proposed.

With the remaining balloon payments coming up, it is clear that the St. Lawrence Seaway has a major problem. The user charges cannot practically be raised to meet those past deferred obligations on the payment schedule. It is now proposed in two different pieces of legis-

lation that the debt schedule either again be extended or eliminated entirely, as suggested in S. 2219.

Either way, the result will be additional subsidization of the St. Lawrence Seaway commerce by the American taxpayer. And this will have a decided detriment to competing railroads which themselves must fully fund construction, operation, and maintenance of their privately owned rights-of-way.

We have long advocated a public policy requiring all surface transportation modes to compete not on the basis of subsidy, but upon the basis of market forces and lowest total costs. The railroad industry, like the administration, believes that all beneficiaries of public projects should pay—to the largest extent possible—the full public costs of those projects.

All modes of transportation, railroads included, have received Federal aid at one time or another. The inland water carrier industry, according to a Congressional Budget Office testimony before another committee last week, has received a far greater degree of Federal subsidies than any of the other surface modes. And quite clearly, if the Nation's barges had to repay all of that past aid, most would be bankrupt overnight.

But discussions of past Federal aid is not a particularly helpful way of viewing the need to wean all forms of transportation from the Federal Treasury. If subsidies to transportation modes are to be eliminated and the various modes have to compete upon the basis of their lowest total cost, then public policy must be changed to ensure the ability of users to pay in full for public works projects.

The story of the St. Lawrence Seaway should serve as a warning to those who advocate unrestrained Federal appropriations for public works projects. This Nation can no longer afford St. Lawrence Seaway projects whose costs outstrip their benefits.

Neither, might I add, can the Nation afford more Penn Centrals which parallel the St. Lawrence Seaway and which failed in large part because of its inability to compete against federally subsidized competitors.

A large segment of the Nation's domestic barge industry has apparently adopted a strategy of opposing all actions which would assist the railroad industry and of promoting all actions which would damage our industry, irrespective of the effects upon the water carriers themselves.

Despite this tactic, and despite the competitive threats to the railroads of a lowering of the repayment schedule, we would not oppose extending the repayment schedule of the seaway's revenue bonds from 50 to 80 years, if: one, the extension carries a requirement that existing tolls on the seaway not be lowered; and, two, any future capital investment on the Seaway is fully funded by users at market interest rates.

We believe our position, while perhaps slightly inimical to our own self-interest, to be consistent with sound economic policy, with the pressing needs of the Seaway Development Corporation, and with the needs of the Congress as it wrestles with unprecedented budget deficits.

I thank you for this opportunity to testify. And I am prepared to respond to any questions.

[Mr. Briggs' prepared statement follows:]

PREPARED STATEMENT OF RICHARD E. BRIGGS

My name is Richard E. Briggs and I am Executive Vice President of the Association of American Railroads. Our members operate 94 percent of the total railroad mileage in the United States, employ 92 percent of the nation's railroad workers, and handle 98 percent of the nation's railroad freight traffic.

America's freight railroads have a legitimate interest in public policy dealing with the St. Lawrence Seaway. Ships moving both import and export cargo through the Seaway offer a directly competitive service to railroads. If the Federal Government subsidizes waterways transportation, railroads are at an obvious disadvantage.

When the Seaway was first built in the late 1950's, it was envisioned that user charges would cover not only the costs of operation and maintenance, but capital construction costs—with interest—as well. That has not been the case. By 1970, Congress granted a request of the St. Lawrence Seaway Development Corp. that all future interest on the debt be forever forgiven. Despite the benefit-cost ratios used to justify construction of the Seaway, the benefits proved illusory, and the users allegedly couldn't pay the projected user charges.

Additionally, and also at the request of the Seaway Development Corp., remaining principal payments were rescheduled to afford users substantial monetary relief through the mid-1980's, when they would esca'ate sharply—not too different than balloon payments on a secured loan. All the while, the American taxpayer shouldered the interest burden on the outstanding principal.

Now that the rescheduled principal-only payments are about to escalate, the St. Lawrence Seaway Development Corp. is again before Congress saying that user charges cannot be raised to meet those past deferred obligations. It has been suggested that either the debt schedule again be extended, or even eliminated entirely.

Either way, the result will be additional subsidization of St. Lawrence Seaway commerce by the American taxpayer—to the detriment of competing railroads which must themselves fully fund construction, operation and maintenance of their privately owned rail rights-of-way. Additionally, railroads pay ad valorem taxes on those rights-of-way—a tax fully escaped by users of the Seaway, as it is publicly owned.

America's freight railroads have long advocated public policy requiring all surface transportation modes to compete not on the basis of subsidy, but on the basis of market forces. The railroad industry, like the Administration, believes that all beneficiaries of public projects should pay—to the largest extent possible—the full public costs of those projects.

All modes of transportation—railroads included—have received Federal aid at one time or another. The water carriers, according to Congressional Budget Office testimony before another committee last week, have received a greater degree of Federal subsidies than any of the other surface modes. But, discussion of past Federal aid is not a particularly helpful way of viewing the need to wean all forms of transportation from the Federal Treasury.

If subsidies to transportation modes are to be eliminated, and the various modes are to compete upon the basis of market forces, then public policy must be changed to ensure the ability of users to pay in full for public works projects. The story of the St. Lawrence Seaway should serve as a warning to those who advocate unrestrained Federal appropriations for public works projects. This nation can no longer afford St. Lawrence Seaways. Neither can the nation afford more Penn Centrals, which fail because of their inability to compete against federally subsidized competitors.

America's freight railroads do not oppose extending the repayment schedule of the Seaway's revenue bonds from 50 to 80 years if:

(1) The extension carries a requirement that existing tolls on the Seaway not be lowered; and

(2) Any future capital investment on the Seaway is *fully* funded by users, at market interest rates.

We believe our position to be consistent with sound economic policy, with the pressing needs of the St. Lawrence Seaway Development Corp., and with the current needs of the Congress as it wrestles with unprecedented budget deficits.

I thank you for this opportunity to testify. I am prepared to respond to any questions.

Senator GLENN. Thank you very much. We appreciate your comments.

I think your comments at the end, that you would not oppose the extension from 50 to 80 years—and those are a couple of big ifs there—but the extension carries a requirement that the existing tolls on the seaway not be lowered, I think that it is not likely that tolls are going to be lowered, certainly not to any significant extent.

The No. 2 area, that any future capital investment on the seaway is fully funded by users at market interest rates, is another subject. I think, for all of our transportation systems, whether it is railroads or air or barge or seaway, whatever, I am not sure that I would want to lock that in law, at market interest rates.

We are liable to prohibit by that mechanism almost any new development in any of our transportation means. If interest rates were down to a much lower level, that might be an option we would want to consider. But I am not sure we would want to do it with interest rates where they are right now.

In the opinion of you gentlemen, how do you think your Canadian counterparts would respond to the proposals to restructure, refinance the seaway debt? Would there be any reaction from Canada, adverse or otherwise? Or would they look upon it with favor?

Mr. Abraham, you were shaking your head. What do you think?

Mr. ABRAHAM. My view would be that the Canadians will welcome it, just as some of my predecessors here have said before, simply because they have taken consistently the leadership of the U.S. actions, and have adopted them for their own.

I can see no adverse reaction from the Canadians if we were to pass legislation which, a priori, would either eliminate our seaway tolls or would significantly lower them. I think such a matter would require some prior arrangement with them.

But I am quite sure that our views on this matter are not nearly as dependable as David Oberlin's and those I am sure you have heard before.

Senator GLENN. I feel a little sorry for Mr. Oberlin. He is under the gun a little bit, I know. He told us that his own personal views had not changed. And I can presume that he is under modest push, should we say, from certain sources for the testimony he gave this morning in wanting to hold off, because I know that his views through a lengthy period of time have been to get a solution to this, which is what we were trying to address with S. 422.

And so I hope that whatever the administration is going to recommend will be coming out as fast as possible, at least, as he indicated, by the end of this year. I would hope for it before that, so we can get the long-term aspects of this whole matter settled, including whatever the relationship with our Canadian counterparts is going to be.

Mr. Kudrna, you are chairman of the Great Lakes Commission and are therefore very familiar with the position of the Midwest Governors on the seaway. Could you explain what their position is?

Mr. KUDRNA. The Midwest Governors and the National Governors both support forgiveness of the St. Lawrence Seaway debt and support some equitable uniform user fees that consider national interests.

They both have gone on record as supporting forgiveness of the debt, both the Midwest Governors and the National Governors.

Mr. SCHNEIDER. Senator Glenn, I would like also to add for that—Frank, correct me if I am wrong—but one of the main thrusts of the resolution adopted by the Midwest Governors is that there be a Federal exposure continued, federally maintained and operated, so that we are not at the whims and woes of not only other States but other ports as well, so that the St. Lawrence Seaway and the Great Lakes transportation sysem can operae as one unit.

Senator GLENN. I am not sure I understood you. Are you talking about operations and maintenance?

Mr. SCHNEIDER. Right.

Senator GLENN. That that say under Federal?

Mr. SCHNEIDER. Yes, sir.

Senator GLENN. But funded from tolls or user fees?

Mr. SCHNEIDER. Well, user fees, but who knows how those are going to be implemented? But if user fees are equitably administered, that they be done federally, and that all operations and maintenance of the seaway come out that one big pool.

Senator GLENN. If a user fee proposal goes through, and if we do come up with that, several of you have mentioned the equity of this as opposed to other ports. Is that the main part of this, or do you see this changing rather dramatically the whole concept? Will this force a lot of the trade that you have, or a lot of the service that you provide, over onto the railroads if we go to user fees?

Mr. HELBERG. Mr. Chairman, I certainly do not want to get into a public debate with my own esteemed colleagues. But I guess I should point out from the perspective of the Port of Duluth, Minn., and, for lack of a better term, for those who serve as our constituents in Duluth, those position papers and policy statements I submitted for the record a moment ago are unanimously opposed to any form of user fee.

And so any references that have been made here earlier regarding application of user fees, getting the full support of the Great Lakes is not entirely correct. Mr. Sullivan made reference earlier to user fees being inevitable. We have not accepted user fees as being inevitable, at least not at our end of the maritime world.

One of our greatest fears is that any user fee schedule could be a tremendous threat to our domestic industry, not only the maritime industry but to our domestic industry.

Senator Durenberger, who was here earlier, and Senator Boschwitz, who was represented here today, and I know he has addressed this matter a number of times, are both also highly concerned about the fact that, for example, we move 40 to 50 million tons of iron ore—in these days it is taconite pellets—but iron ore from northern Minnesota to ports in Lake Erie and Lake Michigan annually.

Should we get into a position where a user fee is imposed twice, once at the loading port and once at the discharge port, Minnesota iron ore, whereas it is only imposed one time and that is at the point of discharge for any imported ores, that puts Minnesota in a less competitive position than it presently is with foreign ores.

It is a major concern to us in Duluth. We have other concerns as well: The risk of double taxation—and by "double taxation," I mean we already are saddled with seaway tolls, we are looking at the possibility of user fees on top of that, as you pointed out earlier, Senator Glenn. This is a domestic problem.

Should the connecting channels of the Great Lakes be included and with these 20-odd bills floating around the Houses of Congress addressing user fees, some of which include them and some of which do not, should the connecting channels of the Great Lakes be included, those of us who are farthest from tidewater would pay the greatest penalty and would be penalized the greatest.

We also are concerned about the possibility of, as the administration has proposed, non-Federal public entities, to use the administration's term, being responsible for the assessment, monitoring, and collection of user fees. We see an absolute crazy-quilt of new local bureaucracies setting up a tollgate at virtually every passing station, getting a changing and a wide variety of user fees.

Also, I think the Senate Foreign Relations Committee must consider the fact that we share our boundary with our friends to the north in Canada. And a very large volume of cargoes move from one Canadian port to another Canadian port moving through waters maintained by the U.S. Government, by our Federal Government.

As one example, in the past 20 years, more than 13 million tons of grain have moved in each of the past 2 years from Thunder Bay, Ontario, to St. Lawrence River Canadian ports or directly overseas. Those cargoes move through U.S. waters and would be untouched by any user fee scheme we see. And I thought I should point that out for the record, sir.

Senator GLENN. Yes. Thank you very much.

Mr. KUDRNA. Senator.

Senator GLENN. Yes, Mr. Kudrna.

Mr. KUDRNA. Senator, I would like to just add to that. The first preference of the Governors Association and Midwest Governors is not to have user fees. However, there are enormous pressures being put on us right now. The Corps of Engineers budget, for example, has some drastic reductions in the level of maintenance and cutting down on shifts of operation and so forth. And there are great pressures to yield to some sort of user fee system through the administration's appropriations process.

And what the Governors have said in that position is if there are user fees—and this is the Governors across the country—they have collectively said as an element, that you absolutely should forgive that St. Lawrence Seaway debt. That should be an element of any consideration that all systems start off on a clean slate.

And if there are user fees, the major Federal interest should be defined, and that interest being the source of major customs fees that put several billion dollars, probably something on the order of over $5 billion, in the Treasury each year; and should establish a Federal interest to pay a significant piece of those charges.

Senator GLENN. Yes, Mr. Briggs, you had your hand up a moment ago.

Mr. BRIGGS. In responding to your question about the impact of user fees, from our perception let me divide that in two parts: user fees on ports and user fees on inland waterways.

The latest evaluation by the Department of Transportation projects no material adverse effects from a full user charge system on the inland waterways. Now, most commodities would not be affected. There would be some change in grain. Those grain shippers who are nearer the waterway would pay a higher rate or have a lower profit margin. Those grain shippers who now use rail would be better off. But overall, no material impact.

On the ports, an appropriately applied user charge system would probably advantage those ports using the St. Lawrence Seaway. Since they now pay a greater share of their costs, their incremental share would arguably be considerably lower than with the same system of user charges applied elsewhere.

All of this depends, of course, upon the mix or user charges. It can be done by a segment toll or it can be done by system averages.

I suspect when economics and politics are blended, in order to avoid disruption of the system that has been set up, we will take the operating and maintenance costs that go in and apply a system average charge across the country so ports will not be disadvantaged. New projects will be financed on a segment basis by the specific beneficiaries.

Mr. ABRAHAM. Senator Glenn, I would like to add a comment to Mr. Briggs. He made reference to the recently released 205 study. This refers to section 205 of the 1978 user fee bill, the one that enacted for the first time the tax on diesel fuel for use on the inland waterways.

I think among the port interests, I am sure that you and your staff have heard in recent months about the differences of opinion that have existed as to what user fee impacts would be on the one scheme as opposed to another.

There is one thing, though, that we all can agree among ourselves on. And frankly, I would hope that we could have at least some basis for agreement with the railroad industry. That concerns the 205 study to the point that the 205, which presents essentially a picture of no dislocations among the transportation modes, is a study which is more of omission than of commission.

Next week we propose to present testimony for Congressman Rhodes' committee in which we will identify 44 specific items mandated in the 1978 legislation to have been studied in the 205 study and which were not so covered.

The bottom line to your question Senator Glenn, is simply that if user fees were to be enacted in any one of the schemes that are now even being seriously considered, that serious economic dislocations would occur and the interests in the Great Lakes would be the one to suffer the most, so long as any new user fees will come on top of what we discussed here today at considerable and perhaps too great lengths.

And as I have tried to identify before, we are now suffering a disability which is at least 12 times that of the user fee proposed in the Abdnor-Moynihan bill.

Senator GLENN. Thank you. I would like to ask one other question, and perhaps this might be addressed to Mr. Pelfrey and Mr. Schneider, in particular.

Coal, as the World Coal Study concluded, offers the most plausible near-term solution to the problem of energy dependence. I know it came as a shock to me some years ago when I found out, I believe, that the Port of Toledo is No. 3 in the world in coal shipment, an inland port such as this—it comes up by railroad, Mr. Briggs, gets to Toledo.

But it gets up there, and then Toledo throws more coal through that port annually. I think it is third in the world in tonnage of coal that is moved. A lot of it moves just around the Great Lakes.

But this World Coal Study would indicate a tremendous potential for expansion of the coal trade that might go through some of the Great Lakes ports in the future.

My question would be this: With the changes proposed, have there been any studies as to what the cost per ton of coal would be, and would this make coal through the Great Lakes shipping ports not competitive with other means of shipping? Has anyone done a study on that? It seems to me that if they have not, they probably should.

Mr. PELFREY. I think the Federal Government is very derelict in omission of the Great Lakes in coal export studies. There have been some very interesting movements of coal, of the largest movement of coal from the North American Continent went out of the Great Lakes via five Great Lakes self-unloaders loading 150,000-ton coal ship out of Quebec.

One of the things that most people are not aware of is that Quebec has 90 feet of water, their harbor, while we are talking of any east coast port, I think the deepest harbor we have is about 45 feet.

So there are economies in size. If coal is going to move successfully from the United States to the European markets it is going to move as oil does, in a huge bulk, very large cargo vessels. And we think that the Great Lakes is an overlooked alternative system to exporting that coal.

Senator GLENN. What is your maximum draft out at Toledo right now?

Mr. PELFREY. Twenty-seven feet.

Senator GLENN. What is the average through the Lakes? Is that the average through the Lakes? It is across Lake Erie?

Mr. SCHNEIDER. Federally maintained channels, Senator, are all 27 feet.

Senator GLENN. That is just in maintained channels.

Mr. SCHNEIDER. Yes.

Mr. PELFREY. One of the things that is overlooked is that we have coal-loading facilities already in place in Conneaut, in Ashtabula, Sandusky, Toledo, and Chicago. I am talking about modern facilities already in place.

We also have a huge, efficient fleet of self-unloading bulk carriers already in place with no additional capital expenditures required.

The only thing that I think is slowing down the Great Lakes is, like oil, there is a glut of coal on the marketplace. Until that glut disappears, I think all of the coal exports are going to be muted.

Senator GLENN. Your coal exports out of Norfolk, when you try to get them out of there, are those lines pretty well clogged now?

Mr. BRIGGS. No, sir, though I wish they were.

Senator GLENN. They are not at maximum capacity?

Mr. BRIGGS. No. We increased the coal moving through Hampton Roads and Norfolk by approximately 35 percent over a year ago,

and we are still way short of capacity. In addition, there have been substantial increases in capacity at Baltimore. Some are planned in Philadelphia and in New Orleans.

The trips are generally shorter than the trips that you envision. From the railroad standpoint, the movements out of Appalachia are operationally more efficient; the cars run downhill all the way. And there are some substantial port efficiencies out of Norfolk.

The guess is that the capacity in the Norfolk-Hampton Roads area will probably be expanded by at least 50 percent in a relatively short time if, in fact, we can secure contracts for the coal from European buyers. That is the real secret, whether you are talking to the railroads or the coal mine or the port interests. They are willing to put up the money if in fact we can get the contracts.

Senator GLENN. Mr. Burke, you had your hand up. Why do we not give you the last word? We will have to end very shortly because we are flirting with the usual 2-hour limit after the Senate goes into session. So we will have to end very shortly.

Mr. BURKE. I just wanted to add my comment to Mr. Helberg's. I agree with him. We in Cleveland do not accept the fact that user charges are upon us and here to stay. We intend to fight that issue.

I might just mention that on the coal fixtures the ocean charting rates have plummeted so drastically over the last 3 or 4 months.

Before becoming the port director in Cleveland I was with AID and the State Department. We were fixing these vessels on coals for Egypt through Hampton Roads. A normal fixture would be $21 a ton or $15 a ton on a foreign flag and about twice that on an American flag. The rate now is $6 a ton on the foreign flag. So you can see it is not the time to be in the market running a vessel.

Senator GLENN. I hate to end on that pessimistic note.

Mr. Oberlin, let me say to you that we appreciate your being here today.

We appreciate the testimony of the panel. I would only close by saying that the Great Lakes Senators, about 12 of us, are working together. This is our first hearing on the Seaway issue. I am glad to start getting some of this out into the public and talked about so that we can have whatever impact we are going to have on whatever happens through the year as the new programs are formulated.

So we appreciate your being here this morning. We appreciate your testimony. If there are questions that other members of the committee or staff might have of you which we would submit to you, we appreciate your responding to those so that they could be included in this morning's record.

The committee will stand adjourned.

[Whereupon, at 12:17 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF CHRISTOS N. KRITIKOS, PRESIDENT AND CHAIRMAN OF THE BOARD, CERES TERMINALS INC., CHICAGO, ILL.

I am Christos N. Kritikos, President and Chairman of the Board of Ceres Terminals Inc. Ceres is a terminal operator serving the Great Lakes ports of Chicago, Illinois and Burns Harbor, Indiana.

At the outset, I want to express my deep appreciation to Senator Percy and the members of this Committee for holding this hearing to address the relationship between "user fees" and the St. Lawrence Seaway system and the impact of this relationship on the Great Lakes international shipping industry.

S. 422, the subject of today's hearing, would extend for thirty years the period of repayment of the revenue bonds issued by the Saint Lawrence Seaway Development Corporation. Although such an extension by itself would provide some benefit to Great Lakes shipping interests, S. 422 does not go far enough when evaluated with the various "user fee" proposals and the unique problems facing the Great Lakes navigation system. As an alternative to S. 422, Ceres Terminals urges the complete "forgiveness" of the St. Lawrence Seaway debt.

The concept of user fees for funding port construction, operation, and maintenance costs is considered by many to be a recent innovation. In fact, since 1959 the Great Lakes' users have had to bear the full cost of construction, maintenance, and operation of the St. Lawrence Seaway. The St. Lawrence Seaway is the only navigation system in the United States that has been subjected to user fees for over twenty years. In this regard, Ceres and other users have been burdened by user fees since the Seaway was built.

Admittedly, the Lakes' northern location and shorter shipping season contribute to the costs of doing business with Great Lakes concerns. Yet, our Great Lakes ports have managed to overcome these natural disadvantages and to compete with the Atlantic, Gulf and Pacific Coastal areas. The Lakes would be able to compete even more effectively were it not for the imposition of financial encumbrances relating to the Seaway not imposed on their coastal range counterparts. We are also handicapped by administration of cargo preference laws whereby government shipping agencies have ignored the statutory mandate to ship a fair amount of government cargo via Great Lakes ports. The potential of this competition and the short-sightedness of the government's cargo routing policy is dramatically illustrated by the fact that shipping rates from the other coastal areas simultaneously increase with the close of each Great Lakes shipping season.

The Great Lakes is not looking for an advantage. What we seek is a more equitable footing with the other three seacoasts. Merely restructuring the Seaway debt will not give us that equality.

The need to forgive the Seaway debt becomes even more compelling in view of the proposed "user fee" legislation. For example, S. 1692, recently reported by the Senate Committee on Environment and Public Works, would impose "user fees" equalling 25 percent of operations and maintenance costs of existing deep-draft channels and harbors and 100 percent of new construction costs. Most likely these user fees would be collected from vessel traffic.

Without debating the merits of the various "user fee" proposals and how these fees could be collected most equitably, one thing is certain. Although S. 1692 exempts the Great Lakes connecting channels and ports administered by the Seaway from user fees, the imposition of user fees on Great Lakes ports and the continuance of the present system of tolls to recover construction and maintenance costs will place a double burden on the Great Lakes maritime interests not incurred anywhere else. In reality, the Lakes will suffer a "double user fee."

Avoidance of this double burden is critical. As a terminal operator, we have witnessed the sharp decline in international shipping traffic on the Great Lakes during the past decade and the virtual disappearance of American-flag service. Today, only one U.S. flag line operates on the Great Lakes. This carrier's overseas sailings from the Lakes amount to less than 1 percent of the overseas sailing offered annually by U.S. flag carriers. Ceres' own efforts to encourage additional U.S.-flag service on the Great Lakes have proven unsuccessful.

A "double user fee" will continue this sharp decline of international traffic on the Lakes. It will not only accelerate the diversion of midwest cargo from Great Lakes ports, which we are currently suffering, but will continue the weakening of the Lakes as our country's fourth seacoast. This, in turn, weakens the Lakes as a viable part of the national defense system.

The Great Lakes further deserves equitable consideration in view of the fact that its users also pay tolls to the Canadians for the operation and maintenance of the part of the Seaway administered by Canada. Canada has already forgiven its Seaway debt.

For the foregoing reasons, the Seaway debt should be eliminated. If user fee legislation is enacted, we urge that some Seaway tolls be credited to all Great Lakes ports for operation and maintenance costs in the Great Lakes. Currently, Seaway revenues exceed Seaway operations and maintenance costs on an annual basis by $1 or $2 million. It is inequitable that under present proposals port users are going to have to pay 25 percent of operations and maintenance costs while only Seaway users continue to pay 100 percent of that system. Equitably, the Great Lakes ports and their users should receive credit for any tolls paid beyond 25 percent of the costs of operating and maintaining the Seaway. At a minimum, the Great Lakes port users should receive credit for the $1 or 2 million excess of tolls over Seaway operation and maintenance costs.

NATIONAL COAL ASSOCIATION,
Washington, D.C., March 23, 1982.

Hon. CHARLES H. PERCY,
Chairman, Committee on Foreign Relations, U.S. Senate, Dirksen Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to request that this letter be made part of the record on your March 17 hearing on the St. Lawrence Seaway. As you are aware, United States exports of metallurgical and steam coal have risen dramatically in the past 2 years. The increase in demand for steam coal for electricity generation and industrial uses in Western Europe has been of particular importance as our allies move to reduce their dependence on OPEC oil. We expect the demand for U.S. coal abroad to continue to expand through the rest of this century and exports to increase from an already high 92 million ton per year mark to a possible 189 million tons by 1995.

The coal industry is and will continue to utilize port facilities on the East Coast, West Coast, Gulf Coast and our "fourth coast," the Great Lakes, to ship coal throughout the world. Thus, the St. Lawrence Seaway is becoming an increasingly important segment of our nation's coal transportation system. In 1981, almost two million tons of American coal were shipped through the Seaway, more than a ten-fold increase over 1980 shipments via that route. Most of this tonnage, after traveling through the Seaway on lake carriers, was transloaded in Quebec onto large ocean carriers for the remainder of its voyage to overseas consumers. In addition to the coal destined for export moving through the Seaway, some quantities are shipped from Great Lakes' ports through the Seaway for use on the Eastern Seaboard. As is evidenced by these movements, the St. Lawrence is a key transportation route for the U.S. coal industry.

Although your hearing is focused on the St. Lawrence Seaway, I would like to call your attention to the threat to coal exports that exist from cargo preference.

I am referring specifically to the cargo preference provision adopted as Title IV to H.R. 4627 the Port Development and Navigation Improvement Act of 1981 which was reported out of the House Merchant Marine and Fisheries Committee last October. The cargo preference requirements supported by the Committee includes the following elements:

The requirement that 40 percent of dry bulk imports and exports be carried on U.S. flag vessels 10 years after the passage of the Act;

The requirement that the U.S. vessels used be built in the United States and operated with American crews, without construction or operating differential subsidies; and

The requirement that our trading partners enter into a special agreement governing the maritime trade between the two nations.

Rebuilding the U.S. merchant marine is certainly an admirable, and a necessary goal. However, we question the necessity of building a merchant marine at the expense of our industries which depend upon trade for a good deal of their business and the jobs which our foreign trade creates.

Our analysis indicated that the coal exporting industry would be especially hard hit. American coals are just now coming into their own on the world energy market. We have been able to nearly double our exports of coal in the last 2 years, from 65 million tons in 1979 to 110 million tons in 1981. Coal exports resulted in some 65,000 jobs in the mining industry alone in 1981 and added nearly $6 billion toward our balance of payments. But the world coal market is a competitive market and our coals must be delivered to our customers in Europe, Japan and elsewhere at approximately the same price as coals from Australia, Canada and South Africa. Because we are a high cost supplier, care must be taken not to put additional or unnecessary costs on American coals. We can easily and quickly be priced out of the market.

Cargo preference would very clearly price American coals out of the world market.

Cargo preference requirements, such as those included in Title IV, of H.R. 4627 would add from $20 to $40 per ton to the cost of American coals. This would cause a total loss of market and, indeed, would raise the overall world energy price levels.

I recently presented a paper outlining the effects of cargo preference on the coal industry and a copy of that paper and supporting analysis is enclosed. I would be pleased if you would also make this paper a part of your record.

If you would like additional information on either of these subjects, please contact me directly or Connie Holmes of the National Coal Association Staff.

Sincerely,

CARL E. BAGGE.

Enclosures.

AMERICAN COAL EXPORTS—THE OPPORTUNITY AND THE CARGO PREFERENCE PERIL

I've spent the past few months as an itinerant coal preacher, spreading the gospel of export markets from England to Alaska, from Colorado to California—talking to coal sellers, coal buyers, and to the good people who are moving coal from the mine to market.

Ironically, as I've travelled two continents, extolling the virtues of American coal to replace OPEC oil, the oil glut is running rampant from Germany to Georgia.

Newspapers are filled with stories about falling prices, about the sustained assault on OPEC imports by conservation and coal conversion, and, are littered with wild-eyed predictions of an imminent collapse of the Cartel itself.

Yet, the interest in American coal is growing. Energy audiences are far more receptive to the American coal message.

The reason can be gleaned from an old English proverb, which should also strike a resonant chord with this seafaring audience: "He who is shipwrecked the second time," it says "cannot lay the blame to Neptune."

Five years ago the world was swimming in a sea of oil. But, before the decade was out, oil prices went up more than 170 percent—sending an economic tidal wave crashing across the shores of the world's free nations. The painful memories of our recent energy past are still lingering.

Today, not a single world leader is proclaiming the end of the world oil crisis. For they know, as we know, that the crisis isn't measured by how much oil is on hand, but, how the world's nations are still using the energy resources at their command.

Despite all the rhetoric—despite all the "progress" of conservation, of energy efficiency—the United States and our allies are still too dependent on a long, thin line of tankers, plowing through the volatile and politically-unsettled waters of the Persian Gulf Region.

I am here this morning to repeat the message I've been carrying to Europeans and Americans alike—that there is a better economic, better political and better energy choice, and it is this: An armada of coal ships, fanning throughout the

world from America's ports. The steam coal explosion of the past three years is witness that the American ship of state is travelling in new, energy waters. We are riding the crest of a new energy tide, which already is lapping at the shores of Europe and is steadily rising toward the shores of the Pacific Rim Nations.

Over the past ten years, the peoples of the free world have been little more than passengers on an energy ship set adrift in the ever-changing currents of OPEC pricing and production decisions.

Those days can be soon at an end if we fire our energy ship with American coal—if we join together and keep a steady hand on the energy policy helm. For with expanding coal markets overseas, we have the choice of charting a new and more certain energy, economic and political course, leaving in our wake the oil crisis far behind.

I am reminded, as we talk about the today's oil plenty anomaly, that the word "crisis" in Chinese is made up of two characters: One means "opportunity." The other means "danger."

The opportunities for America offered by quickened coal export trade are virtually limitless, and I want to talk about some of them this morning. But, I also want to talk about a clear and present danger to American coal exports—a danger which comes in the form of an old, nautical menace, called cargo preference.

During the post mortem of doubling oil prices in the late 1970's, the United States learned that from adversity can spring prosperity. As oil prices soared to new, rarified heights, it was possible for colliers to deliver American coal to any spot on the globe cheaper than OPEC oil.

The steam export surge of the past three years embraces two kinds of opportunity: Higher oil prices created markets which once didn't exist. And, private enterprise was given the opportunity to prove it was up to the challenge of expanding these new markets.

We are meeting those challenges. Last year, a record 110 million tons of coal were shipped abroad. What's more, 40 percent of those shipments were steam coal—used by our allies to fire power plants and industries as these nations are building economic growth and development.

Those 110 million tons added $6 billion to our balance-of-payments and were directly responsible for 65,000 jobs—coming when our economy is suffering from a long string of trade deficits and far too many of our workers are out of a job.

Today, President Reagan is calling on the American private sector to show its colors—to accept more responsibility for economic revival. I say, he need look no farther than to the people all along coal is mine-to-market chain—coal producers and miners, railroad workers, barge handlers on the waterways, and the men and women at our ports who are moving more coal to overseas markets.

With better cooperation and greater efficiency, the private sector is meeting the demand—even though it's impossible for coal-handling facilities at our ports to be built faster than the OPEC ministers can raise oil prices.

We are squeezing the most from our existing coal handling facilities, and the private sector is moving swiftly to finance and build new capacity. Demurrage—a source of misunderstanding and delay—is ending. By the end of next year 150 million tons of coal handling will be in place, enough to meet expected coal export demand of 1990.

This is evidence of a coal-marketing system gaining more strength and stamina. And, it's evidence of a people who see clearly the economic implications of increased coal trade. And, why not?

Economists at Georgetown University have estimated that every $15 billion increase in sales of products abroad increases the use of goods at home by $22 billion. This, in turn, creates more than one million new jobs, adds $38 billion to the GNP, stimulates $4 billion of new investments, and puts more than $12 billion in federal, state and local tax coffers.

These projections are more than mathematical abstractions. By the end of this century coal could be this nation's largest export commodity, adding more than $15 billion in today's dollars to our balance-of-payments.

But, are our leaders fully aware of the full dimensions of increased world coal trade? Do we understand that America's new energy role abroad places the mantle of world energy leadership squarely on our shoulders?

By an accident of geography, the United States holds more coal reserves than any other country. Among the four principal coal supplying nations we have 70 percent of the reserves.

In effect, this means that as the Saudis are to oil, the United States is to coal. Sooner or later, the price of American coal delivered around the world will be the world coal price. This has far-reaching economic and energy implications.

For ladies and gentlemen at this seminar, my point is this: With ever-growing coal export markets and by keeping down the price of American coal, we can stand up to OPEC. A continued switch from oil to coal as the world's energy base without question will affect OPEC's oil pricing and production decisions.

For this reason coal is not just another commodity. International coal trade among the world's free nations—with the United States playing a leading role—is laying the foundation for greater world economic, energy and political stability.

The foremost challenge for the United States in the 1980's is to assure that our coal prices are stable—to assure that the world coal momentum can build. This will be a tough fight, but we enter the battle armed with a powerful weapon.

Today, American coal prices are stable. They are already reflecting hundreds of millions of dollars invested in coal industry modernization. Our prices are also reflecting the costs of regulations imposed by the federal government over the past ten years to improve mine and worker safety, and to promote a wide range of environmental values.

Over the past three years the "real" price of coal has remained stable as oil and gas prices—which are tied to world oil prices—continue to go up.

Our only hope to keep coal prices stable is to control the economic forces within the coal mine-to-marketing chain.

One of the keys is increased competition among the various transportation alternatives that move coal to market. Our clear goal is to make sure that the railroads have far more competition, because of their dominance in domestic coal transportation markets.

No less important is to lower overseas freight rates. Savings of up to 40 percent are possible, if we take steps now to dredge our harbors and make way for the large coal carrying hips.

Contained in the many harbor-dredging bills pending before Congress are provisions that the coal industry are supporting: Private sector-federal cost sharing to finance dredging projects, "fast-tracking" of environmental permitting to speed up the building of these projects, and far more private sector construction responsibility.

I don't have time to go into all these issues. But, I want to use this forum to state—in no uncertain terms—the coal industry's opposition to the cargo preference amendment tacked on to the Biaggi Harbor Dredging Bill without a single hearing. The amendment directs the Secretary of the Department of Transportation to negotiate bilateral agreements to achieve—in just 10 eyars—the transportation of 40 percent of dry bulk exports and imports on ships built in the United States and operated by American crews.

This amendment is one of the gravest threats to the coal industry in my memory.

Cargo preference would destroy our export markets, heap billions of dollars of unnecessary freight costs on the coal industry and energy consumers, and it would bring America down from its energy leadership position.

Forget all the geopolitical opportunities and economic benefits I mentioned earlier in my speech. Write off the billions of added dollars to America's balance-of-payments. Send the people who are building new port capacity home. Find other investments for the people who are putting their money into these port improvement projects. If this amendment survives, the coal industry has no choice but to work hard to kill this harbor-dredging bill.

Cargo reference is a "protectionist" wolf in the sheep's clothing of national defense. It's said, that without a strong American Merchant Marine the defense of the United States in times of emergency is compromised. If this is true, then let's find some money in the 5-year, trillion-dollar defense budget to build these ships.

The cargo preference amendment is a "red herring." It's offered under the guise of national defense only to divert attention from its real purpose—to prop up a sick American maritime industry, which cannot begin to compete with its foreign counterparts. The reasons are well known.

American crews cost three to five times more than foreign crews. U.S. shipbuilding costs compared with foreign yards are equally wide-apart. A 110,000 deadweight vessel built in the United States costs $100 million. The same vessel built overseas costs 60 percent less. The efficiency and bloated costs of the American Merchant Marine show up in the sky-high freight rates.

Under Public Law 480, or the "Food For Peace" program, half of all grain shipped overseas must travel on American bottoms with American crews. As Congressman Paul McCloskey recently pointed out in a "Dear Colleague" letter

opposing cargo preference, freight rates to ship grain under Public Law 480 are $49 per ton higher than in foreign vessels.

The American Farm Bureau also reports that last year American taxpayers paid subsidies on these grain shipments to the tune of nearly $60 per ton just to keep the American Merchant ships financially afloat.

The cargo preference amendment would pass along the same inefficiency and bloated shipping costs to some of America's most crucial commodities—iron ore, bauxite and alumina, grains, soy beans, phosphates, and coal.

These commodities will be threatened in foreign trade markets, as will the farmers and other American workers at home. The amendment's damage to coal producers, coal miners, and energy consumers is far worse. For in just a decade millions of tons of American coal production would be wiped out.

What would happen to coal prices? Recently a National Economic Research Association (NERA) study for NCA said that if the delivered cost of coal went up $15 per ton, the United States would lose 70 percent of its foreign trade markets.

Congressman McCloskey and others are predicting price rises of as much as $30 to $40 per ton. If that happens, the United States can't compete in the international coal market.

Our allies are turning toward American coal as a lower-priced energy alternative to OPEC oil. If we arbitrarily hike coal prices, our allies will have no other economic choice than to turn to other nations and energy resource alternatives—to South Africa and Australia, to Soviet gas, and to OPEC.

American coal is a welcomed energy choice because our prices fall below OPEC's oil price. One reason why OPEC's share of oil markets are falling—more than 30 percent in five years—is competition from coal. Drive the price above OPEC's oil price, and American coal's competitive edge with the Cartel is erased. Are we now going to take off the pressure and give the OPEC ministers every incentive to enter into a new round of price increases?

There's another geopolitical reason why the cargo preference amendment is so damaging to the United States and the world's free nations. American coal prices soon will set world coal prices. As I said, only the United States is blessed with coal reserves sufficient to meet long-term world coal demands. Over time, as world coal prices rise to American price levels, the world's consuming nations would be facing an energy time bomb.

I repeat, without competition from coal, OPEC price hikes are assured. And, combined with rising world coal prices, escalating world energy prices are inevitable. This can only lead to greater world economic, energy and political stability.

There are political consequences at home as well. The cargo preference amendment would put us back on the self-defeating course of substituting bureaucratic rules and regulations for the free market. We would retreat into the regulatory quagmire of bureaucratic bungling, as government attempts to decide which flag owner is meeting the law's requirements. Just as we've witnessed time and again from these citadels of confusion, endless red tape, complicated waiver schemes, increasing government costs, and delays would be the order of the day.

It's hard to imagine a law which would be more contrary to the Reagan Administration's deregulation policies—endorsed by Congress and the American people. Nor, would any law be a clearer example of economic, political and energy suicide.

Let me close with these thoughts. There are times of reassessment. We can use the recent economic and energy past as a lamp to guide the future. America's success, as President Reagan is saying often, depends on rekindling a spirit of cooperation among all segments of our society—for government, business and the people to work in concert in the national interest.

That's not what's been happening in the past few years. There's been too much bitterness, too much divisiveness, too many narrow interests, and not enough healthy, honest to goodness good will and cooperation. Legislation such as the cargo preference amendment cannot help America get back on the cooperative track.

The maritime industry isn't the only one facing stiff competition from overseas. Automobiles and steel are among the hardest hit. Men and women in those industries—union and management—are working together to cut costs, to increase productivity, to emphasize quality, and to pull themselves up by their bootstraps. That same prescription to cure economic ills should apply to the maritime industry, but it also applies to our nation.

In Lewis Carroll's "Alice in Wonderland," there's an exchange between Alice and the Cheshire Cat. She asks: "Would you please tell me which way I ought

to go?" "That depends on where you want to get to," said the cat. Where do we want to get to?

Less than a half-dozen years ago a political administration was telling everyone who would listen that the United States was running out of energy. What's more, they were saying that there was a new economic and social day a—dawning—that the American people would have to tighten their belts, to throw off their greedy habits, and to lower their sights for the future.

Well, thank Almighty God we are putting that bankrupt, backsliding, economic and social policy behind us. It has no place in our future, and it's unacceptable to the American people.

We cannot turn back America's clock. We cannot afford to renounce a policy of free trade—a policy which has made the United States the greatest commercial power on earth.

We have the opportunity to make the most of international energy leadership, to work in concert with other nations to build world energy security, political stability and economic growth. And, it's on this energy and economic course that our ship should be travelling.

In Julius Caesar, Shakespeare writes: "There is a tide in the affairs of men, which taken at the flood leads on to fortune. A new energy tide—a coal tide—can lead us on to greater fortune. But, as Shakespeare went on to say, "On such a full sea we are now afloat, and we must take the current when it serves or lose our ventures."

The time to decide is now. Will we take the tide at the flood?

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